IMPORTANT NOTICE

You must read the following before continuing.

The following applies to the prospectus following this notice and you are therefore advised to read this carefully before reading, accessing or making any other use of the prospectus. In accessing the prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE ATTACHED PROSPECTUS MAY ONLY BE DISTRIBUTED OUTSIDE THE UNITED STATES TO PERSONS THAT ARE NOT U.S. PERSONS AS DEFINED IN, AND IN RELIANCE ON, REGULATION S (''**REGULATION S**'') UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE ''**SECURITIES ACT**''), OR WITHIN THE UNITED STATES TO QIBs THAT ARE QPs (EACH AS DEFINED BELOW) AND THAT CAN MAKE REPRESENTATIONS SET FORTH IN THE NEXT PARAGRAPH IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (''**RULE 144A**''). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED DOCUMENT IN WHOLE OR IN PART IS PROHIBITED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION. THE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO PERSONS REASONABLY BELIEVED TO BE QUALIFIED INSTITUTIONAL BUYERS (EACH A ''**QIB**'') WITHIN THE MEANING OF RULE 144A AND QUALIFIED PURCHASERS (EACH A ''**QP**'') AS DEFINED IN SECTION 2(A)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED, WHICH CAN REPRESENT THAT (A) THEY ARE QPs WHO ARE QIBs WITHIN THE MEANING OF RULE 144A, (B) THEY ARE NOT BROKER-DEALERS WHO OWN AND INVEST ON A DISCRETIONARY BASIS LESS THAN US$25 MILLION IN SECURITIES OF UNAFFILIATED ISSUERS, (C) THEY ARE NOT A PARTICIPANT DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN, (D) THEY ARE ACTING FOR THEIR OWN ACCOUNT, OR THE ACCOUNT OF ONE OR MORE QIBs, EACH OF WHICH IS ALSO A QP, (E) THEY ARE NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THE NOTES, (F) EACH ACCOUNT FOR WHICH THEY ARE PURCHASING WILL HOLD AND TRANSFER AT LEAST US$200,000 IN PRINCIPAL AMOUNT OF NOTES AT ANY TIME, (G) THEY UNDERSTAND THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITORIES AND (H) THEY WILL PROVIDE NOTICE OF THESE TRANSFER RESTRICTIONS TO ANY SUBSEQUENT TRANSFEREES OR (2) IN AN OFFSHORE TRANSACTION TO A PERSON THAT IS NOT A U.S. PERSON IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S.

Confirmation of your representation: In order to be eligible to view the attached prospectus or make an investment decision with respect to the securities, you must be (i) outside the United States (as defined in Regulation S) and a person other than a U.S. person (as defined in Regulation S) who is not acting for the account or benefit of a U.S. person or (ii) a QIB who is a QP which can make the representations set forth above. By accepting the e-mail and accessing the attached prospectus, you shall be deemed to have represented to us that you are outside the United States and not a U.S. person and not acting for the account or benefit of a U.S. person or that you are a QIB that is a QP and that you can make the representations set forth above and that you consent to delivery of such prospectus by electronic transmission.

This prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom, (ii) investment professionals falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the ''**Order**''), (iii) persons who fall within article 49(2)(a) to (d) of the Order and (iv) any other persons to whom this prospectus may for the purposes of section 21 of the Financial Services and Markets Act 2000 be distributed (all such persons together being referred to as ''**Relevant Persons**''). The notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such notes will be engaged in only with, Relevant Persons. Any person who is not a Relevant Person should not act or rely on this prospectus or any of its contents.

You are reminded that this prospectus has been delivered to you on the basis that you are a person into whose possession this prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriter or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer in such jurisdiction.

This prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of BNP Paribas or Citigroup Global Markets Limited or any person who controls any one of them, nor any director, officer, employee or agent of either of them nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the prospectus distributed to you in electronic format and the hard copy version available to you on request from BNP Paribas or Citigroup Global Markets Limited.

US$3,000,000,000

LUKOIL INTERNATIONAL FINANCE B.V.

comprising

US$1,500,000,000 3.416% Notes due 2018
US$1,500,000,000 4.563% Notes due 2023

each guaranteed by

OAO LUKOIL

The Company

- We are one of the largest publicly traded oil companies in the world in terms of proved crude oil and gas reserves and we are the second largest producer of crude oil in Russia. We divide our business into four main segments: exploration and production; refining, marketing and distribution; petrochemicals; and power generation.

The Issuer

- Our indirect wholly-owned subsidiary, LUKOIL International Finance B.V., a company organised under the laws of The Netherlands, will issue the US$1,500,000,000 3.416% notes due 2018 (the 2018 notes) and the US$1,500,000,000 4.563% notes due 2023 (the 2023 notes). References to the notes in this prospectus are references to the 2018 notes and 2023 notes.

The Guarantor

- If LUKOIL International Finance B.V. fails to make payments on the notes when they are due, OAO LUKOIL (LUKOIL) will be required to make them under the guarantees. LUKOIL is the only guarantor of the notes.

Maturity

- Unless previously redeemed or purchased and cancelled in accordance with the "*Terms and Conditions of the Notes*", the 2018 notes will mature on 24 April 2018 and the 2023 notes will mature on 24 April 2023.

Interest

- LUKOIL International Finance B.V. will pay interest on (i) the 2018 notes at an annual rate equal to 3.416% and (ii) the 2023 notes at an annual rate equal to 4.563%.
- LUKOIL International Finance B.V. will make interest payments on the notes semi-annually on 24 April and 24 October of each year, commencing on 24 October 2013.
- LUKOIL International Finance B.V. will make payments under the notes free and clear of, and without withholding or deduction for, any taxes imposed by The Netherlands or the Russian Federation, to the extent described under "*Terms and Conditions of the Notes*".

Ranking

- The notes will be general unsecured and unsubordinated obligations of LUKOIL International Finance B.V., ranking senior to all present and future subordinated obligations and equal in right of payment to all present and future unsecured and unsubordinated obligations.
- The guarantees will be our general unsecured and unsubordinated obligation, ranking senior to all our existing and future subordinated obligations, equal in right of payment to all our existing and future unsecured and unsubordinated obligations, effectively junior to all our existing and future secured obligations and structurally junior to all existing and future obligations of our subsidiaries.

Redemption

- LUKOIL International Finance B.V. may (i) at any time prior to 24 April 2018 redeem the 2018 notes and (ii) at any time prior to 24 April 2023 redeem the 2023 notes in each case in whole or in part by paying a "make-whole" premium. See "*Terms and Conditions of the Notes*".
- LUKOIL International Finance B.V. may redeem all of the notes at 100% of the principal amount thereof, plus accrued and unpaid interest, in the event of certain taxation changes. See "*Terms and Conditions of the Notes*".

Notice to Investors

- INVESTING IN THE NOTES INVOLVES RISKS. YOU SHOULD CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 18 BEFORE INVESTING IN THE NOTES.
- The notes will be offered and sold outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act of 1933, as amended (the Securities Act), and in the United States to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act) that are also "qualified purchasers" (as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended), which can make certain representations as described in "*Transfer Restrictions*" and "*Subscription and Sale*", in reliance on the exemption from registration provided by Rule 144A. For a description of these and further restrictions, see "*Transfer Restrictions*" and "*Subscription and Sale*".

Settlement

- The notes are expected to be delivered on or about 24 April 2013.

Listing

- We have applied to the Financial Conduct Authority in its capacity as the competent authority under the Financial Services and Markets Act 2000 (the UK Listing Authority) for the notes to be admitted to the official list of the UK Listing Authority (the Official List) and to the London Stock Exchange plc (the London Stock Exchange) for the notes to be admitted to trading on the London Stock Exchange's Regulated Market (the Market). References in this prospectus to the notes being "listed" (and all related references) shall mean that the notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC (Markets in Financial Instruments Directive) of the European Parliament and of the Council. There can be no assurance that a trading market for the notes will develop.

ISSUE PRICE:
100% for the 2018 notes
100% for the 2023 notes

Joint Lead Managers and Bookrunners

BNP PARIBAS **CITIGROUP**

Dated 22 April 2013

This prospectus comprises a prospectus for the purposes of Directive 2003/71/EC, as amended (the Prospectus Directive) and for the purpose of giving information with regard to LUKOIL International Finance B.V. (the Issuer), LUKOIL and its subsidiaries (the Group) and the notes, which, according to the particular nature of the Issuer, LUKOIL and the notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and LUKOIL and the rights attaching to the notes and the guarantees. The Issuer and LUKOIL accept responsibility for the information contained in this prospectus. To the best of the knowledge of the Issuer and LUKOIL (each of which has taken all reasonable care to ensure that such is the case), the information contained in this prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Certain information in this prospectus contained under the headings "*Presentation of Reserves and Resources*", "*Overview*", "*Risk Factors*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Business*" has been based on information obtained from third party sources that we believe to be reliable. These sources, as identified herein, are Platts and InfoTEK in "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Risk Factors*", the Russian Ministry of Energy in "*Overview*" and "*Business*", Miller and Lents, Ltd. in "*Presentation of Reserves and Resources*", "*Overview*", "*Summary Consolidated Financial and Other Information*", "*Risk Factors*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Business*", Central Bank of Russia (CBR) in "*Presentation of Financial and Other Information*" and "*Risk Factors*" and the Federal State Statistics Service of Russia in "*Risk Factors*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*". This information has been accurately reproduced and, as far as we are aware and are able to ascertain from information published by such third party 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*".

THE NOTES ARE OF A SPECIALIST NATURE AND SHOULD ONLY BE BOUGHT AND TRADED BY INVESTORS WHO ARE PARTICULARLY KNOWLEDGEABLE IN INVESTMENT MATTERS. AN INVESTMENT IN THE NOTES IS SPECULATIVE, INVOLVES A HIGH DEGREE OF RISK AND MAY RESULT IN THE LOSS OF ALL OR PART OF THE INVESTMENT. SEE "*RISK FACTORS*".

No person is authorised to give any information or to make any representation in connection with the offer or sale of the notes other than as contained in this prospectus and any information or representation not so contained must not be relied upon as having been authorised by the Issuer, LUKOIL or any Manager (as defined in "*Subscription and Sale*"). Neither the delivery of this prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or LUKOIL since the date hereof or the date upon which this prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or LUKOIL since the date hereof or the date upon which this prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. No representation or warranty, express or implied, is made by any Manager as to the accuracy or completeness of such information.

To the fullest extent permitted by law, the Managers accept no responsibility whatsoever for the contents of this prospectus or for any other statement, made or purported to be made by a Manager or on its behalf in connection with the Issuer, LUKOIL or the issue and offering of the notes.

This prospectus does not constitute an offer to sell, or a solicitation to subscribe for or purchase, by or on behalf of the Issuer, LUKOIL, the Managers or any other person, any of the notes in any jurisdiction where it is unlawful for such person to make such offer or solicitation. The distribution of this prospectus and the offer and sale of the notes in certain jurisdictions is restricted by law. Persons into whose possession this prospectus may come are required by the Issuer, LUKOIL and the Managers to inform themselves about and to observe such restrictions. This prospectus may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is not authorised or is unlawful. Further information with regard to restrictions on offers and sales of the notes and the distribution of this prospectus is set out under "*Subscription and Sale*".

Except as otherwise stated in "*Subscription and Sale*", no action is being taken to permit a public offering of the notes or the distribution of this prospectus (in any form) in any jurisdiction where action would be required for such purposes.

Applications have been made to the UK Listing Authority for the notes to be admitted to the Official List and to the London Stock Exchange for such notes to be admitted to trading on the Market. Admission to the Official List together with admission to trading on the Market constitutes official listing on a stock exchange.

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER REGULATORY AUTHORITY IN THE UNITED STATES NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE NOTES OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.

THE NOTES AND THE GUARANTEES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT), AND SUBJECT TO CERTAIN EXCEPTIONS, 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 UNDER THE SECURITIES ACT (REGULATION S)). THE NOTES ARE BEING OFFERED AND SOLD OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN RELIANCE ON REGULATION S AND BY THE MANAGERS THROUGH THEIR RESPECTIVE REGISTERED BROKER-DEALER AFFILIATES INSIDE THE UNITED STATES TO "QUALIFIED INSTITUTIONAL BUYERS" (QIBS) (AS DEFINED IN RULE 144A(A)(1) UNDER THE SECURITIES ACT) THAT ARE ALSO "QUALIFIED PURCHASERS" (QPS) (AS DEFINED IN SECTION 2(A)(51) OF THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE INVESTMENT COMPANY ACT)) WHICH CAN MAKE CERTAIN REPRESENTATIONS AS DESCRIBED IN "*TRANSFER RESTRICTIONS*" AND "*SUBSCRIPTION AND SALE*" IN RELIANCE ON THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144A UNDER THE SECURITIES ACT (RULE 144A) (FOR A DESCRIPTION OF THESE AND FURTHER RESTRICTIONS SEE "*TRANSFER RESTRICTIONS*" AND "*SUBSCRIPTION AND SALE"). PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF ANY NOTE MAY BE RELYING UPON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A.*

TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (RSA 421-B) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

THE NOTES WILL BE SUBJECT TO CERTAIN RESTRICTIONS ON OFFERS, SALES AND TRANSFERS (SEE "*TERMS AND CONDITIONS OF THE NOTES*", "*NOTICE TO INVESTORS*", "*TRANSFER RESTRICTIONS*" AND "*SUBSCRIPTION AND SALE*").

The 2018 notes offered and sold outside the United States to non-U.S. persons in reliance on Regulation S (the 2018 Regulation S Notes) and the 2018 notes offered and resold within the United States only to QIBs that are also QPs in reliance on Rule 144A (the 2018 Rule 144A Notes) will be represented initially by two global certificates in registered form (respectively, the 2018 Regulation S Global Note and the 2018 Rule 144A Global Note and, together, the 2018 Global Notes). The 2023 notes offered and sold

outside the United States to non-U.S. persons in reliance on Regulation S (the 2023 Regulation S Notes) and the 2023 notes offered and resold within the United States only to QIBs that are also QPs in reliance on Rule 144A (the 2023 Rule 144A Notes) will be represented initially by two global certificates in registered form (respectively, the 2023 Regulation S Global Note and the 2023 Rule 144A Global Note and, together, the 2023 Global Notes). References to the Regulation S Notes are references to the 2018 Regulation S Notes and the 2023 Regulation S Notes and references to the Regulation S Global Notes are references to the 2018 Regulation S Global Note and the 2023 Regulation S Global Note. References to the Rule 144A Notes are references to the 2018 Rule 144A Notes and the 2023 Rule 144A Notes and references to the Rule 144A Global Notes are references to the 2018 Rule 144A Global Notes and the 2023 Rule 144A Global Notes.

The Regulation S Global Notes will be registered in the name of Citivic Nominees Ltd. as nominee for Euroclear Bank SA/NV (Euroclear) and Clearstream Banking, *société anonyme* (Clearstream, Luxembourg), and the Rule 144A Global Notes will be registered in the name of Cede & Co. as nominee for The Depository Trust Company (DTC). The Regulation S Global Notes will be held by Citibank, N.A., London Branch as common depository for Euroclear and Clearstream, Luxembourg and the Rule 144A Global Notes will be held by Citibank, N.A., London Branch as custodian for DTC. Interests of participants in Euroclear, Clearstream, Luxembourg and DTC in the notes will be represented by book entries on the records of Euroclear, Clearstream, Luxembourg or DTC, as the case may be. It is expected that delivery of the Global Notes will be made on or about 24 April 2013 (the Closing Date).

STABILISATION

In connection with the issue of the notes, Citigroup Global Markets Limited (the Stabilising Manager) or any person acting on behalf of the Stabilising Manager may over-allot notes or effect transactions with a view to supporting the market price of the notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the notes 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 notes and 60 days after the date of the allotment of the notes. Any stabilisation action or over-allotment shall be conducted in accordance with all applicable laws and rules. Any stabilisation action, if commenced, shall be effected outside the Russian Federation.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

Our financial information set forth in this prospectus has, unless otherwise indicated, been extracted without material adjustment from our audited consolidated financial statements as of and for the years ended 31 December 2012, 2011 and 2010. Our financial statements are prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Non-U.S. GAAP Financial Measures (Unaudited)

EBITDA is a non-U.S. GAAP financial measure. EBITDA is defined as net income before interest, taxes and depreciation and amortization. We believe that EBITDA provides useful information to investors because it is an indicator of the strength and performance of our business operations, including our ability to finance capital expenditures, acquisitions and other investments and our ability to incur and service debt. While depreciation and amortization are considered as operating costs under U.S. GAAP, these expenses primarily represent the non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods. The EBITDA calculation is commonly used as a basis for some investors, analysts and credit rating agencies to evaluate and compare the periodic and future operating performance and value of companies within the oil and gas industry. EBITDA does not include our need to replace our capital equipment over time. The non-U.S. GAAP measures mentioned above should not be considered in isolation as an alternative to net income, operating income or any other measure of performance under U.S. GAAP.

References to "LUKOIL"

In this prospectus, unless otherwise stated or otherwise required by the context, the following terms apply with respect to these entities:

- "LUKOIL" and the "Guarantor" refers only to OAO LUKOIL, an open joint stock company organised under the laws of the Russian Federation;
- "LUKOIL International Finance B.V." and the "Issuer" refer only to LUKOIL International Finance B.V., a private company incorporated in The Netherlands with limited liability and an indirect wholly-owned subsidiary of LUKOIL;
- The terms "we", "us" and "our", along with the term the "Group", refer, collectively, to LUKOIL and its subsidiaries, including LUKOIL International Finance B.V; and
- References to "our charter" relate only to LUKOIL's charter.

References to the Notes and Guarantees

Unless otherwise stated, references to the "2018 notes" are to the US$1,500,000,000 3.416% notes due 2018 and the "2023 notes" are to the US$1,500,000,000 4.563% notes due 2023, in each case issued by LUKOIL International Finance B.V. References to the "notes" are to the 2018 notes and the 2023 notes. References to the "guarantees" are to LUKOIL's guarantees of the 2018 notes and the 2023 notes.

Currency

In this prospectus, the following currency terms are used:

- "RUB" or "ruble" means the lawful currency of the Russian Federation;
- "U.S. dollars", "US$" or "$" means the lawful currency of the United States of America (the United States or U.S.); and
- "€" or "euro" means the single currency of the participating Member States in the third stage of the European and Economic Monetary Union pursuant to the Treaty establishing the European Community, as amended from time to time.

Rounding

Certain amounts and percentages that appear in this prospectus have been subject to rounding adjustments. Accordingly, total amounts presented in certain tables may not equal the sum of amounts being added due to rounding.

Additional Definitions

A glossary of certain other defined terms that are used in this prospectus can be found on page 193.

Currency Presentation and Exchange Rate Information

The following table sets forth, for the periods indicated, certain information regarding the exchange rate between the ruble and the U.S. dollar, based on the official exchange rate quoted by the CBR. The rates below may differ from the actual rates used in the preparation of our financial statements and other financial information appearing in this prospectus. Our inclusion of the exchange rates is not meant to suggest that the ruble amounts actually represent such U.S. dollar amounts or that such amounts could have been converted into U.S. dollars at any particular rate, or at all.

	High	Low	Average(1)	Period End(2)
Year ended 31 December		*(U.S. dollar/RUB)*		
2008	29.38	23.13	24.86	29.38
2009	36.43	28.67	31.72	30.24
2010	31.78	28.93	30.37	30.48
2011	32.68	27.26	29.39	32.20
2012	34.04	28.95	31.07	30.37

	High	Low	Average(1)	Period End(2)
Month ended		*(U.S. dollar/RUB)*		
October 2012	31.53	30.72	31.10	31.53
November 2012	31.73	30.94	31.41	31.06
December 2012	30.99	30.37	30.75	30.37
January 2013	30.42	30.03	30.27	30.03
February 2013	30.62	29.95	30.16	30.62
March 2013	31.08	30.51	30.80	31.08
April 2013(3)	31.72	31.08	31.41	31.21

(1) The average rates are calculated as the average of the daily exchange rates on each business day (which rate is announced by the CBR for each such business day) and on each non-business day (which rate is equal to the exchange rate on the previous business day).

(2) The period end rates are quoted for the last business day of the relevant period.

(3) Data up to and including 10 April 2013.

Solely for the convenience of the reader, and except as otherwise stated, this prospectus contains translations of some ruble amounts into U.S. dollars at a conversion rate of RUB 30.3727 to US$1.00, which was the rate published by the CBR on 31 December 2012. A market exists within Russia for the conversion of roubles into other currencies, but the limited availability of other currencies may inflate their value relative to the rouble. No representation is made that the rouble or dollar amounts referred to herein could have been or could be converted into roubles or dollars, as the case may be, at these rates, at any particular rate or at all. See ''*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—We face foreign exchange and inflation risks that could materially adversely affect our business, financial condition and results of operations*'' for a description of certain risks related to foreign exchange rates and inflation.

The exchange rate between the Russian ruble and the U.S. dollar has fluctuated during the periods covered by the financial statements. The CBR rate on 10 April 2013 was RUB 31.2086 = US$1.00.

PRESENTATION OF RESERVES AND RESOURCES

This prospectus contains information concerning crude oil and gas reserves estimated by LUKOIL that has been derived or extracted from the reports of Miller and Lents, Ltd. (Miller and Lents), our independent reservoir engineers, dated as of 31 December 2012, 2011 and 2010. These estimates were prepared on the basis of the standards set forth by the Petroleum Resources Management System (PRMS) approved in March 2007 by the Society of Petroleum Engineers, and also present information concerning reserves on the basis of the definitions contained in the U.S. Securities and Exchange Commission (SEC) Rule 4-10(a) of Regulation S-X at that time (SEC standards).

For each of the three years ended 31 December 2012, 2011 and 2010. Miller and Lents audited LUKOIL's internal estimates of oil and gas reserves in accordance with the SEC standards. PRMS standards differ in certain material respects from SEC standards. We have calculated our proved reserves under SEC standards assuming for our Russian fields that production licences would be renewed and the fields would be produced until the economic limit of production is reached. In making this determination, Miller and Lents accepted our representations that our projects meet the ''commitment to develop'' and ''market availability'' criteria under SEC standards.

Petroleum engineering is a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact manner. These estimates necessarily depend upon a number of variable factors and assumptions, many of which are beyond our control. Due to the inherent uncertainties and the necessarily limited nature of reservoir data and the inherently imprecise nature of reserves estimates the reserves amounts disclosed in this prospectus may change as additional information becomes available. You should not place undue reliance on the ability of the reserves estimated by LUKOIL to predict actual reserves or on comparisons of similar reports concerning companies established in other economic systems.

In estimating our reserves as of 31 December 2012, 2011 and 2010 under the SEC standards, we have included significant quantities of crude oil and gas that we expect to produce after the expiry dates of certain of our current production licences in the Russian Federation. We believe that our Russian licences will be extended to permit production subsequent to their current expiry dates consistent with certain amendments to the Russian subsoil law enacted in 2004, which provided that new licenses be granted for a time equal to the economic viability of the relevant field. Even though most of our licenses were issued prior to the enactment of this legislation, as long as we meet certain conditions, such as compliance with approved development programmes, we believe that each of our licences issued prior to this legislation will be extended, upon expiration, for the economic life of the relevant fields. As of 31 December 2012, 53% of our licences had been extended in accordance with this legislation. We intend to extend the licence periods for any property that is profitable (i.e., producing above the economic limit of the property). To date, none of our licence renewal applications have been denied. See ''*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—Our Russian subsoil use licences may be terminated, suspended or limited prior to their expiration and we may be unable to obtain or maintain various permits or authorisations*'' and ''*Business—Exploration and Production—Domestic Exploration and Production—Licences*'' for more information on our licences in Russia.

Our estimated reserves totals included in this prospectus are presented in barrels (for crude oil) and cubic feet (for natural gas). However, like many other Russian and European oil companies, we use the metric tonne and the cubic metre as the standard unit of measurement for quantities of crude oil and natural gas, respectively, which we produce and sell. For convenience, amounts of crude oil have been translated from tonnes into barrels (or from barrels into tonnes in respect of reserve amounts) and amounts of natural gas have been translated from cubic metres into cubic feet (or from cubic feet into cubic metres in respect of reserve amounts). Translations of barrels to tonnes were made at the rate of 7.33 barrels per tonne (other than in respect of crude oil production amounts, where such translations were made using conversion rates characterising the density of oil from each of the relevant oil fields). Translations of cubic feet to cubic metres were made at the rate of 35.31 bcf per bcm. Translations of barrels of crude oil into boe were made at the rate of 1 barrel per boe and of mcf into boe at the rate of 6 bcf per 1 mmboe.

CONTENTS

	Page
NOTICE TO INVESTORS	1
AVAILABLE INFORMATION	1
LIMITATION ON ENFORCEABILITY OF CIVIL LIABILITIES	1
FORWARD-LOOKING STATEMENTS	3
OVERVIEW	4
OVERVIEW OF THE OFFERING	11
SUMMARY CONSOLIDATED FINANCIAL AND OTHER INFORMATION	15
USE OF PROCEEDS	17
RISK FACTORS	18
CAPITALISATION	53
SELECTED CONSOLIDATED FINANCIAL AND OTHER INFORMATION	54
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	57
BUSINESS	93
MANAGEMENT	126
THE ISSUER	132
ADDITIONAL INFORMATION REGARDING THE COMPANY	133
TERMS AND CONDITIONS OF THE NOTES	137
TRANSFER RESTRICTIONS	151
SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM	156
SUBSCRIPTION AND SALE	162
TAXATION	165
GENERAL INFORMATION	178
REGULATION OF THE OIL INDUSTRY IN THE RUSSIAN FEDERATION	180
GLOSSARY OF TERMS	193
INDEX TO FINANCIAL INFORMATION	F-1

NOTICE TO INVESTORS

Due to the restrictions on transfer of the notes, purchasers of the notes are advised to consult legal counsel prior to making any purchases of the notes or reoffering, reselling, pledging or otherwise transferring any of the notes.

AVAILABLE INFORMATION

LUKOIL has received an exemption under Rule 12g3-2(b) under the U.S. Securities Exchange Act of 1934 (the Exchange Act) and, pursuant to such Rule, furnishes to the SEC or publishes on its website in English specified non-United States disclosure documents.

Each of the Issuer and LUKOIL have agreed that, for so long as any notes are ''restricted securities'' within the meaning of Rule 144(a)(3) under the Securities Act, it will, during any period in which it is neither subject to Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or prospective purchaser designated by such holder or beneficial owner or to the Trustee for delivery to such holder, beneficial owner or prospective purchaser, in each case upon the request of such holder, beneficial owner, prospective purchaser or the Trustee (as defined in ''*Terms and Conditions of the Notes*''), the information required to be provided by Rule 144A(d)(4) under the Securities Act. This covenant is intended to be for the benefit of the holders and the prospective purchasers designated by such holders, from time to time of such restricted securities.

LIMITATION ON ENFORCEABILITY OF CIVIL LIABILITIES

LUKOIL is an open joint stock company organised under the laws of the Russian Federation and most of its directors and executive officers reside in Russia. The Issuer is a company organised under the laws of The Netherlands and some of its directors and executive officers reside in Russia. Most of the assets of LUKOIL and of such persons are located outside of the United States and the United Kingdom. Each of the Issuer and LUKOIL has appointed an agent for service of process in England; however, it may not be possible for investors to effect service of process within the United States or the United Kingdom on LUKOIL, the Issuer or their respective directors and executive officers or enforce judgments obtained in the United States or the United Kingdom against LUKOIL, the Issuer or their respective directors and executive officers.

Judgments rendered by a court in any jurisdiction outside the Russian Federation will be recognised by courts in Russia generally only if:

- an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered; and/or
- a federal law of the Russian Federation provided for the recognition and enforcement of foreign court judgments.

No such federal law has been passed and no such treaty for the reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters exists between the United States or the United Kingdom and the Russian Federation. However, we are aware of at least one instance in which Russian courts have recognised and enforced an English court judgment. The basis for this was a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation are parties. The courts decided that such treaties constituted grounds for the recognition and enforcement of the relevant English court judgment in Russia. In the absence of established court practice, however, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognise and enforce an English court judgment on these grounds. Consequently, it may be impossible to enforce judgments of U.S. courts or English courts against LUKOIL or the Issuer and their officers or directors in the courts of the Russian Federation, including judgments predicated upon the civil liability provisions of U.S. federal securities laws or any state or territory within the United States or English law, when they are brought in original actions or in actions to enforce judgments of U.S. courts or English courts, without re-examination of the issues in the Russian Federation. Moreover, a court of the Russian Federation may refuse or limit enforcement of a foreign judgment, *inter alia*, on public policy grounds (see ''*Risk Factors—Risks Relating to the Russian Federation*'').

The notes and the guarantees will be governed by English law and will provide for disputes, controversies and causes of action brought by parties thereto against us to be settled by arbitration in accordance with the LCIA Rules. The Russian Federation is a party to the 1958 New York Convention on the

Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention). Consequently, an arbitral award from an arbitral tribunal in the United Kingdom and United States would generally be recognised and enforced in the Russian Federation on the basis of the rules of the New York Convention. However, it may be difficult to enforce arbitral awards in the Russian Federation due to:

- the limited experience of the Russian courts in international commercial transactions;
- official and unofficial political resistance to the enforcement of awards against Russian companies in favour of foreign investors; and
- the difficulties of existing mechanisms for enforcement of such awards in the Russian Federation.

In addition, any arbitral award may be limited, in particular, by mandatory provisions of Russian laws relating to the exclusive jurisdiction of Russian courts and the application of Russian laws with respect to bankruptcy, winding up or liquidation of Russian companies. The Arbitration Procedure Code of the Russian Federation also contains an exhaustive list of grounds for the refusal of recognition and enforcement of foreign arbitral awards by Russian courts, which grounds are substantially similar to those provided by the New York Convention. The Arbitration Procedure Code and other Russian procedural laws could change and other grounds for Russian courts to refuse recognition and enforcement of foreign arbitral awards could arise.

Under current Russian law, state duty may be payable upon the initiation of any action or proceeding (including any proceeding for enforcement) arising out of the notes or the guarantees in any court of the Russian Federation.

FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus are not historical facts and are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Words such as ''believes'', ''anticipates'', ''expects'', ''estimates'', ''intends'', ''plans'', ''will'', ''may'' and similar expressions, including the negative of these terms, are intended to identify forward-looking statements, but these expressions are not the exclusive means of identifying such statements. Forward-looking statements appear, without limitation, under the headings ''*Overview*'', ''*Risk Factors*'', ''*Management's Discussion and Analysis of Financial Condition and Results of Operations*'', ''*Business*'' and ''*Additional Information Regarding the Company*''. We may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Examples of such forward-looking statements include, but are not limited to:

- statements of our plans, objectives or goals, including those related to strategy, products or services;
- statements of future economic performance; and
- statements of assumptions underlying such statements.

Forward-looking statements that we may make from time to time (but that are not included in this prospectus) may also include projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- global and domestic economic conditions;
- inflation, interest rate and exchange rate fluctuations;
- the prices of crude oil, gas and refined products;
- the effects of, and changes in, government policies in Russia and the other jurisdictions in which we operate;
- the effects of competition in the geographic and business areas in which we operate;
- the effects of changes in laws, regulations, taxation or accounting standards or practices;
- our ability to increase market share for our products and control expenses;
- acquisitions or divestitures;
- technological changes;
- the effects of international political events; and
- our success at managing the risks of the aforementioned factors.

This list of important factors and the other factors described in this prospectus (including in ''*Risk Factors*'') are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors also could harm our future results. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they were made, and we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

OVERVIEW

This summary contains basic information about us, our industry and the offering. It should be read in conjunction with, and is qualified in its entirety by reference to, the entire prospectus, our audited annual consolidated financial statements and the related notes and the unaudited supplemental oil and gas disclosure included elsewhere in this prospectus. Investing in the notes involves risk. The information set out under ''Risk Factors'' should be carefully considered. Certain statements in this prospectus include forward-looking statements, which also involve risks and uncertainties, as described under ''Forward-Looking Statements''.

Business

We are one of the largest publicly traded oil and gas companies in the world in terms of proved crude oil and gas reserves and we are the second largest producer of crude oil in Russia. We carry out geological exploration work in 11 countries and have proved oil reserves in seven countries (and proved gas reserves in five countries).

As of 31 December 2012, as audited by Miller and Lents, our proved crude oil reserves were approximately 13,381 mmbls (1,814 million tonnes) and our proved gas reserves were 23,487 bcf (3,914 mmboe), for an aggregate of 17,296 mmboe of proved hydrocarbon reserves. As of the same date, our probable crude oil reserves were 5,933 mmbls (804 million tonnes) and our probable gas reserves were 10,738 bcf (1,790 mmboe), for an aggregate of 7,723 mmboe of probable hydrocarbon reserves. For more information about these estimates, see ''*Presentation of Reserves and Resources*''.

Our total revenues were $139,171 million in 2012, compared to $133,650 million in 2011 and $104,956 million in 2010. Our net income in 2012 was $11,004 million, compared to $10,357 million in 2011 and $9,006 million in 2010.

We currently produce oil in Russia, Kazakhstan, Uzbekistan, Azerbaijan and Egypt. In 2012, we produced (including our share in equity affiliates) 677.0 mmbls (91.1 million tonnes) of crude oil and natural gas liquids, including 633.9 mmbls (85.5 million tonnes) in Russia and 43.1 mmbls (5.6 million tonnes) from our international projects. Our domestic crude oil production accounted for 16.3% of all Russian crude oil production based on the aggregate Russian crude oil production for 2012 published by the Russian Ministry of Energy. We produce gas in Russia, Kazakhstan, Uzbekistan and Azerbaijan. In 2012, we also produced 703.9 bcf (117.3 mmboe) of gas available for sale, including 480.1 bcf (80.0 mmboe) in Russia and 223.8 bcf (37.3 mmboe) obtained from various international projects.

We and our equity affiliates have oil refineries in Russia, Ukraine, Romania, Bulgaria, Italy and The Netherlands. We refined 484.3 mmbls (66.1 million tonnes) of raw materials in 2012 at our own and affiliated refineries, including 325.7 mmbls (44.4 million tonnes) at our Russian refineries and 158.6 mmbls (21.7 million tonnes) at our international refineries (including our shares in the ISAB and Zeeland refinery complexes). We also refined 19.5 mmbls (2.7 million tonnes) of crude oil under contracts with international third party refineries. In 2012, we sold 254.1 mmbls (34.7 million tonnes) of crude oil and 92.5 million tonnes of refined products to customers outside of Russia, including sales to CIS countries and exports to international markets. Our sales of crude oil and refined products to customers outside of Russia accounted for 88.4% and 81.9% of our total sales of crude oil and refined products, respectively, in 2012.

Domestic Upstream Operations

As of 31 December 2012, approximately 95% of our proved crude oil reserves were located in Russia. Our largest crude oil reserves are located in Western Siberia, including in the Bolshekhetskaya depression in the Yamal-Nenets Autonomous District, which had proved oil reserves of 7,327 mmbls (1.0 billion tonnes) – 55% of our total proved oil reserves worldwide – as of 31 December 2012. In Russia, the Group's primary focus areas for geological exploration are in the Timan-Pechora, Western Siberia and North Caspian Sea regions. We continue to focus on increasing the efficiency of our geological exploration projects and supporting growth of our reserves by using the latest geophysical methods and adhering to best practices and international operating standards throughout all stages of our work.

In 2012, we brought seven new oil fields and one new gas field into production (compared with four oil and gas fields in 2011). In December 2012, we won an auction for the rights to the Imilorskoye group of fields, which includes the Imilorskoye, West Imilorskoye and Istochnoye oil fields. The oil fields have oil in place and recoverable oil reserves totalling, respectively, 6,270.8 mmbls (855.5 million tonnes) and

1,419.8 mmbls (193.7 million tonnes) in the C1 and C2 categories combined. Production is expected to commence in the Imilorskoye field in 2015.

Approximately 75% of our proved natural gas reserves were in Russia as of 31 December 2012. Our core domestic gas producing area is the Bolshekhetskaya depression in Western Siberia. Our production of gas available for sale from this field was 268.0 bcf (44.7 mmboe) in 2012, which comprised 55.8% of our total production of gas in Russia.

International Upstream Operations

As of 31 December 2012, our international assets accounted for approximately 5% of our proved crude oil reserves and 26% of our proved gas reserves. Our primary international areas of focus are the continental shelf of West Africa (Ghana, Cote d'Ivoire and Sierra Leone), Iraq, Uzbekistan and Kazakhstan. In 2012, we entered into the active phase of development of the West Qurna-2 oil field in Iraq, which is one of the largest oil fields discovered in the world, with estimated recoverable oil reserves of 12,900 mmbls (1.8 billion tonnes).

We continue to focus on expanding our international reserves through enhanced oil recovery technologies and strategic acquisitions.

Oil Refining

We own and operate four crude oil refineries in Russia, located in Perm, Volgograd, Ukhta and Nizhny Novgorod. These refineries, along with our mini-refineries in Urai and Kogalym in Russia, have a combined refining capacity of 45 million tonnes per year and refined a total of 44 million tonnes of crude oil in 2012. Outside of Russia, we own and operate refineries in Bulgaria, Romania and Ukraine, a 80% share in a refining complex in Italy (ISAB) and a 45% share in a refinery in The Netherlands (the Zeeland refinery), which have a combined refining capacity of 214.8 mmboe (29.3 million tonnes) per year and refined a total of 158.6 mmbls (21.7 million tonnes) of raw materials in 2012.

We have invested, and expect to continue to invest, substantial amounts on modernising our refineries and beginning in 2012, all of our refineries in Russia exclusively manufacture Euro-5 compliant gasoline and diesel.

Gas Processing

Our downstream gas assets include four gas processing facilities in Russia: the Lokosovsky gas processing plant in the Khanty-Mansiysk Autonomous District, the Korobkovsky gas processing plant in the Volgograd region, the Permneftegazpererabotka gas processing plant in the Perm region and the Usinsk gas processing plant in the Komi Republic. These gas processing plants have a combined processing capacity of 129.0 bcf (21.5 mmboe) of gas and 1.2 million tonnes (8.6 mmboe) of natural gas liquids. Our gas processing plants processed 118.2 bcf (19.7 mmboe) of gas in 2012. The Lokosovsky gas processing plant is currently our main gas processing facility in Russia and has a gas processing capacity of approximately 75.5 bcf (12.6 mmboe) per year.

Crude Oil and Refined Product Sales

We sell the crude oil that we do not refine into the domestic and international markets. The international sales include exports from Russia and sales outside of Russia of crude oil produced from our international projects. We also undertake crude oil trading activity on international markets. In 2012, we sold 33.3 mmbls (4.5 million tonnes) of crude oil within Russia, or 11.6% of our total crude oil sales and 254.1 mmbls (34.7 million tonnes) of crude oil outside of Russia, or 88.4% of our total crude oil sales.

We sell a wide range of refined products, including gasoline, diesel fuel, fuel oil and lubricants. We sold a total of 113.0 million tonnes of refined products through wholesale and retail channels in 2012. Of this amount, 20.5 million tonnes, or 18.1%, of our refined products were sold in the domestic market, and 92.5 million tonnes, or 81.9%, were sold internationally

Retail Marketing

As of 31 December 2012, we owned, leased and franchised 5,929 retail filling stations, including 2,368 in Russia, 503 in the CIS (excluding Russia), 212 in the Baltic countries, 2,421 in Europe and 425 in the United States. Most of the stations operate under the LUKOIL brand.

In 2012, we sold 8.9 million tonnes (64.9 mmboe) of refined products through our retail network in Russia and 6.6 million tonnes (48.1 mmboe) through our retail network outside Russia.

Petrochemicals

We continue to expand our petrochemicals business through our petrochemicals operations in Russia, Ukraine and Bulgaria. Currently, we own two petrochemicals plants in southern Russia and one in Ukraine. We also manufacture petrochemicals at our Bourgas refinery in Bulgaria. Together, these plants manufactured 0.9 million tonnes of petrochemicals in 2012. The Group makes pyrolysis and organic synthesis products, fuel fractions and polymers, and meets a large part of Russian domestic demand for several important chemicals as well as being a large-scale chemicals exporter to more than 30 countries.

Power Generation

We continue to develop the power generation sector of our business as part of our strategic development programme. We expect power generation to be an important factor in our long-term growth. This sector encompasses all aspects of the power generation business, including the delivery and marketing of electrical energy and of heat produced at power plants. The sector provides energy both for our own needs (to support our exploration and production and refining and marketing segments) and for external power and heat customers in parts of Russia. The Group has installed capacity of combined heating plants of 4.0 GW and installed heating capacity of 10,909 Gcal/hour in Russia. Our total output of electrical energy was 15.4 billion kWh in 2012. Our total output of heat energy was approximately 14.7 million Gcal in 2012.

Transportation

The main Russian crude oil production regions are remote from the main crude oil and refined products markets. We use the Transneft pipeline system, our own pipeline network, rail cars and tankers to transport the crude oil which we produce within Russia, for export outside of Russia and to our refineries. Our wholly-owned subsidiary LUKARCO B.V. (LUKARCO) holds a 12.5% share in the Caspian Pipeline Consortium (CPC), a pipeline project in the Caspian region, which is used to transport crude oil produced in Kazakhstan to a marine terminal near the Russian city of Novorossiysk on the Black Sea for transport on to international markets. We also own export terminals at the port of Svetly in the Kaliningrad region (with a total annual capacity of 4.0 million tonnes), at Varandey on the Barents Sea (with a total annual capacity of 12.0 million tonnes) and at Vysotsk, Vyborg's outer harbour on the Baltic Sea (with a total annual capacity of 12.0 million tonnes). Most of our gas is sold at the wellhead and then transported through the Unified Gas Supply System, owned and operated by Gazprom, which is responsible for gathering, transporting, dispatching and delivering substantially all natural gas supplies in Russia. We transport our refined products primarily through a combination of Russia's state-owned refined products pipeline, OAO AK Transnefteproduct (Transnefteproduct), and by rail car, river-class tanker and truck.

Strategy

Strategic Objectives

Our strategic objectives are sustained shareholder value growth, as well as ecological, industrial, social and personal safety. We aim to increase our profitability by maintaining our sustainable and efficient growth of crude oil, natural gas and refined products production, replacing our reserves at competitive cost and maintaining returns on capital at levels comparable to our international peers.

Execution of Our Strategy

In December 2011, our Board of Directors approved a comprehensive strategic development programme for 2012 to 2021 to achieve our strategic objectives. As part of our strategic development programme for 2012 to 2021, we have focused on steps designed to deliver short- and medium-term benefits to our profitability and returns on investment and a long-term programme designed to sustain our growth and profitability. In addition, the strategic development programme for 2012 to 2021 aims to create value by improving free cash flow and increasing dividends and production by optimising capital expenditures.

Short-Term Development Programme for 2013 to 2015

Our development programme for the next three years is designed to take advantage of opportunities to increase profitability. We believe that the following initiatives will, upon successful implementation, have a positive impact on our profitability:

- *Increase international sales of refined products*. In 2012, we substantially increased international sales of refined products. In 2012, our revenue from the wholesale sales of refined products outside

of Russia increased by $10.8 billion, or 16.6%, compared to 2011, mainly due to an increase in the sales volumes by 12.6%. We are continuing to take a number of steps to ensure that this trend continues, including increasing production of refined products at domestic refineries for export and seeking opportunities to increase both domestic and international refining capacities. As part of this strategy, in September 2012, we increased our stake in the ISAB refinery to 80%.

- *Maintain long-term sustainable growth of production*. As a part of our strategy to maintain the long-term sustainable growth of our hydrocarbon production, during the last several years, we have commenced production projects at a number of key fields, including the Kandym-Khauzak-Shady project in Uzbekistan, East Lambeyshorskoe and Bayandyskoye fields in Timan-Pechora and the Yu. Korchagin field in the North Caspian Sea. In addition, in December 2012, we won an auction for a subsoil use license for certain oil fields located in West Siberia, including the Imilorskoye, West Imilorskoye and Istochnoye fields. The fields are estimated to have oil in place and recoverable oil reserves totalling, respectively, 6,270.8 mmbls (855.5 million tonnes) and 1,419.8 mmbls (193.7 million tonnes) in the C1 and C2 categories combined, and we expect production to commence in 2015. By focusing our planned investment on these fields and by applying more advanced recovery techniques and reservoir management strategies, we have been able, and believe we will continue, to increase our production to levels sustainable for our long-term growth.
- *Apply enhanced oil recovery technologies in partnership with international oil field services companies*. We are working with oil field services companies to improve the efficiency of oil recovery in many of our fields. These efforts have already proved successful, and we have been able to steadily lower some of our production costs at fields where we have employed these techniques. We intend to apply these techniques to more fields in the future. We believe that successful application of advanced recovery techniques will help us to continue to increase production and flow rates while helping control costs.
- *Divest non-core businesses and reduce head count*. We continue to review our non-core activities, which include activities outside the exploration for and production of hydrocarbons and their refining, marketing and distribution, and will consider divesting non-core businesses as appropriate. As part of these efforts, we intend to reduce our head count where possible through divestment of non-core businesses and natural attrition and retirements. Our average head count was approximately 112,000 employees in 2012, compared with approximately 120,300 employees in 2011.
- *Strengthen performance-related pay*. We intend to continue a trend of increasing the use of performance-related compensation across all levels of our Group to ensure a strong link between our financial results and the rewards for managers and employees.
- *Streamline our administration*. We continue to streamline our corporate structure to make it more manageable and efficient and to increase transparency for investors. We believe that more efficient management of our business and a leaner, more focused corporate structure will enable us to reduce costs.

Strategic Development Programme for 2012 to 2021

Our longer-term initiatives include the following:

- *Maximise net present value of our oil production through long-term reserves management*. Our approach to long-term reserves management takes into account not only total recoverable reserves of each field, but also focuses on utilising the most efficient methods of oil recovery to maximise the net present value of the oil recovered from our fields. We continue to utilise new technologies to maximise our oil recovery factor and lower extraction costs. We believe that, in the future, net present value management of oil recovery will allow us to manage our reserves and production in a manner that maximises return on capital employed.
- *Expand our upstream business in Russia*. We intend to increase the profitability of our exploration and production business by accelerating field development where appropriate, utilising improved recovery technology, developing satellite fields close to existing infrastructure to gain incremental reserves and production at a relatively low cost per barrel and continuing to shut in less productive wells. We are also focused on increasing our reserves and production of hydrocarbons in the Bolshekhetskaya depression and the Northern Caspian region. We believe that fields in these areas will have higher flow rates than our more mature reserves elsewhere in Russia, resulting in a lower per-barrel production cost. As part of this strategy, we plan to invest RUB 325 billion ($10.7 billion)

in Russian offshore projects through 2021, of which approximately RUB 6 billion ($197.6 million) has already been invested. We are planning to start production on the V. Filanovsky field in the Caspian Sea in 2015. Development of natural gas at the Pyakyakhinskoye field in the Bolshekhetskaya depression began in 2010 and production is expected to commence in 2016.

- *Increase our international reserves and production through further development of our existing upstream assets and acquisitions*. We aim to increase our reserves and production from international operations to mitigate the risks of geographic concentration. Our primary international areas of focus are currently the non-Russian Caspian region, Central Asia and the Middle East. We believe that we can produce significant amounts of hydrocarbons from various projects in these regions in the medium term. We have also identified attractive opportunities in Africa, South America and elsewhere in the CIS. See ''*Risk Factors—Risks Relating to Business Operations in Emerging Markets*'' for more information on the risks associated with operating in these countries. See ''*—Recent Developments*''.
- *Develop our natural gas operations*. We believe that natural gas is becoming a more important source of energy in Europe and Russia. The objectives of our gas programme include accelerating the growth of our gas production in Russia and internationally and increasing our gas production so that it constitutes one-third of our total hydrocarbon production. We believe that increasing the proportion of natural gas operations in our business will give us more diversified sources of revenue and reduce exposure to crude oil price volatility. As part of the development of our natural gas operations, we plan to invest $678.5 million in 2013 in two projects in Uzbekistan, which are being implemented under PSAs for the Khauzak-Shady, Kandym and Kungradskiy and Southwest Gissar licence areas. As of 31 December 2012, our gas fields had proved gas reserves of 23,196 bcf (3,866 mmboe) and probable gas reserves of 10,476 bcf (1,746 mmboe).
- *Modernisation of refining capacities, primarily in Russia, to increase process complexity and light-oil products output*. We believe that we can improve our profitability by more effectively managing our hydrocarbon production chain, from crude oil production to retail marketing of our own refined products. We gradually expanded our capacity to refine our own crude oil primarily by expanding capacity of our existing refineries and also by seeking opportunities to acquire or construct refineries. In recent years, we have completed modernisation programmes at our Nizhny Novgorod and Volgograd refineries, which have resulted in increased complexity at those refineries. We believe that the modernisation of our capacities has increased, and will continue to increase, process complexity and light-oil products output. We believe we have passed the peak years of investments in upgrading our refineries. Thus, we have reduced the share of our capital expenditures related to refining and marketing to 20%. We own a 45% interest in the Zeeland refinery in The Netherlands. Zeeland operates a refinery near Vlissingen, The Netherlands that has a total refining capacity of approximately 7.9 million tonnes per year and a hydro-cracking unit that has a capacity of approximately 3.4 million tonnes per year. Moreover, in September 2012, we increased our interest in the ISAB refinery complex in Priolo, Italy from 60% (we owned 49% prior to April 2011) to 80%, resulting in our obtaining control over ISAB. The ISAB refinery has a total refining capacity of 16.0 million tonnes per year.
- *Selective development of sales networks in priority regions, improved efficiency in traditional regions through asset modernisation and brand promotion*. We intend to expand our network of filling stations in Russia (primarily in the European Russia region) and internationally to increase our share of the retail market in key markets and regions.
- *Develop our petrochemicals operations*. We intend to develop our petrochemicals business primarily through obtaining of synergetic effect of the gas monetisation. Thus, our Strategic Development Programme provides for construction of a Caspian gas processing unit expanding pyrolysis capacities up to 950,000 tonnes. This will allow us to significantly increase profitability from gas production.
- *Develop our power generation business*. We continue to develop the power generation sector of our business as part of our strategic development programme and expect power generation to be an important factor in our long-term growth.

Risk Factors

Investing in the notes involves a high degree of risk. You should carefully consider the risks and other information contained in this prospectus, although you should note that the risks described in this

prospectus are not the only risks we face and there may be additional risks that we currently consider not to be material or of which we are not presently aware.

- *Risks relating to our business*, including that: (a) global economic developments and market conditions may adversely affect our business, financial condition, results of operations and prospects; (b) 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, results of operations and prospects; (c) we face foreign exchange risks that could materially adversely affect our business, financial condition, results of operations and prospects; (d) 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; (e) we face several risks in connection with the implementation of our strategy to develop our natural gas operations; (f) our subsoil licences may be suspended, terminated or revoked prior to their expiration and we may be unable to obtain or maintain various permits or authorisations; and (g) our development and exploration projects involve many uncertainties and operating risks that can prevent us from realising profits and may cause substantial losses.
- *Risks relating to business operations in emerging markets*, including that: (a) emerging markets, such as Russia, are subject to greater risks than more developed markets, including significant political, legal and economic risks; and (b) most of our international reserves, production and refining interests are located in politically, economically and legally unstable areas.
- *Risks relating to the Russian Federation*, including that: (a) the Russian tax system imposes substantial burdens on us, is not fully developed and is subject to frequent change and significant uncertainty; (b) instability in the Russian economy could materially adversely affect our business; (c) political and governmental instability could materially adversely affect our business, financial condition, results of operations and prospects; and (d) domestic political conflicts could create an uncertain operating environment that would hinder our long-term planning ability and could materially affect the value of investments in Russia.
- *Risks relating to the offering and the notes*, including that: (a) the notes may not have an active trading market, which may have an impact on the value of the notes; (b) the price of emerging market debt is subject to substantial volatility; (c) the notes may only be transferred in accordance with the procedures of the depositaries in which the notes are deposited; (d) the notes are subject to restrictions on transfer; (e) the Issuer can redeem the notes at its option, which may affect the value of the notes; and (f) the protection afforded by the negative pledge contained in the Terms and Conditions of the Notes is limited, which may adversely affect the value of investments in the notes.

Credit Ratings

We are currently rated by three rating agencies: Moody's Investors Service Ltd. (Moody's), Fitch Ratings Limited (Fitch) and Standard & Poor's Credit Market Services Europe Limited (Standard & Poor's). Our ratings as of the date of this prospectus are as follows:

Moody's		Fitch		Standard & Poor's	
Long term implied	Baa2	Long term	BBB-	Long term	BBB
Senior unsecured	Baa2	Short term	F3	Senior unsecured	BBB
Outlook	Stable	Outlook	Stable	Outlook	Stable

The notes have been assigned a rating of Baa2 by Moody's, BBB- by Fitch and BBB by Standard & Poor's.

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 notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the notes. The ratings do not address the marketability of the notes or any market price. Any change in the credit ratings of the notes or our company could adversely affect the price that a subsequent purchaser will be willing to pay for the notes. We recommend that you analyse the significance of each rating independently from any other rating.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not by a credit rating agency established in the European Community and registered under

Regulation (EC) No 1060/2009 (the CRA Regulation) unless this is provided by a credit rating agency operating in the European Community before 7 June 2010 which has submitted application for registration in accordance with the CRA Regulation and such registration is not refused or (ii) the rating provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA registered under the CRA Regulation or (iii) the rating is provided by a credit rating agency not established in the EEA is certified under the CRA Regulation. For the purposes of the credit ratings referred to in this prospectus, each of Moody's, Fitch and Standard & Poor's is established in the European Union and is registered under the CRA Regulation. As such, each of Moody's, Fitch and Standard & Poor's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

Recent Developments

On 1 April 2013, we entered into a purchase agreement to acquire 100% of ZAO Samara-Nafta (Samara-Nafta) from Hess Corp. and Simon Kukes, who holds a 10% stake in the company. Samara-Nafta is an oil producer operating in the Samara and Ulyanovsk regions of Russia. It currently produces 2.5 million tonnes of oil a year and has C1 and C2 category oil reserves estimated at 85 million tonnes. Samara-Nafta also owns rights to explore and develop more than 60 fields within 23 license areas. Total purchase price for the 100% interest is $2.05 billion. The sale is conditioned on approval by the Russian Federal Antimonopoly Service.

In March 2013, we entered into an agreement with VETEK Group to sell our 99.58% interest in our Odessa refinery. We expect the sale to close by June 2013.

In February 2013, we began construction at our Volgograd refinery of a complex for the deep refining of vacuum gas oil, which is expected to allow the refinery to increase Euro-5 diesel fuel output by 13.2 mmbls (1.8 million tonnes) per year.

In January 2013, LUKERG Renew (a joint venture between LUKOIL-Ecoenergo and the Italian ERG Renew) acquired a 100% interest in the Romanian company Land Power SRL, which holds a license to build a wind power station, and the rights to a land plot with an area of approximately five sq. km located in the southeastern part of Romania.

In December 2012, we won an auction for the rights to the Imilor group of fields, which includes the Imilorskoye, West Imilorskoye and Istochnoye fields. We paid an aggregate of RUB 50.8 billion ($1.67 billion) for these rights (50% of which was paid in December 2012 and the remainder in January 2013). The site is located in Western Siberia and has oil in place and recoverable oil reserves totalling, respectively, 6,270.8 mmbls (855.5 million tonnes) and 1,419.8 mmbls (193.7 million tonnes) in the C1 and C2 categories combined.

OVERVIEW OF THE OFFERING

The following overview contains basic information about the notes and the guarantees and is not intended to be complete. For a more complete understanding of the notes and the guarantees, please refer to "*Terms and Conditions of the Notes*".

Issuer

LUKOIL International Finance B.V.

Guarantor

OAO LUKOIL

Notes

US$1,500,000,000 aggregate principal amount of 3.416% notes due 2018
US$1,500,000,000 aggregate principal amount of 4.563% notes due 2023

Issue Price

3.416% for the 2018 notes
4.563% for the 2023 notes

Closing Date

24 April 2013

Maturity Date

Unless previously redeemed, or purchased and cancelled, the 2018 notes will be redeemed at their principal amount on 24 April 2018 and the 2023 notes will be redeemed at their principal amount on 24 April 2023.

Interest

The 2018 notes bear interest at the rate of 3.416% per annum payable in equal instalments semi-annually in arrear on 24 April and 24 October in each year, commencing on 24 October 2013.

The 2023 notes bear interest at the rate of 4.563% per annum payable in equal instalments semi-annually in arrear on 24 April and 24 October in each year, commencing on 24 October 2013.

Form

The notes will be in registered form, without interest coupons attached, in denominations of US$200,000 or multiples of US$1,000 in excess thereof.

The 2018 notes will be issued in the form of a 2018 Regulation S Global Note and a 2018 Rule 144A Global Note and the 2023 notes will be issued in the form of a 2023 Regulation S Global Note and a 2023 Rule 144A Global Note, each in registered form without interest coupons. The Regulation S Global Notes will be deposited with, and registered in the name of, a nominee for the common depository for Euroclear and Clearstream, Luxembourg. The Rule 144A Global Notes will be deposited with a custodian for, and registered in the name of, Cede & Co., as nominee of DTC. Ownership interests in the Regulation S Global Notes and the Rule 144A Global Notes will be shown on, and transfer thereof will be effected only through, records maintained by DTC, Euroclear, Clearstream, Luxembourg and their respective participants. Notes in definitive form will be issued only in limited circumstances.

Status of the Notes

The notes constitute unsubordinated and (subject to Condition 4 of the Terms and Conditions of the Notes) unsecured obligations of the Issuer which rank pari passu and without any preference among themselves. Subject to Condition 4 of the Terms and Conditions of the Notes, each of the Issuer and the Guarantor shall ensure that at all times the claims of the Noteholders against them under the notes and the guarantees, 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.

Guarantees

The payment, when due, of all sums expressed to be payable by the Issuer under the notes and the trust deeds (the first constituting the 2018 notes and the second constituting the 2023 notes) has the benefit

	of unconditional and irrevocable guarantees of the Guarantor, as further described in Condition 2(a) of the Terms and Conditions of the Notes.
Cross Default	There will be a cross default in respect of certain Indebtedness (as defined in the Terms and Conditions of the Notes) of the Issuer, the Guarantor or any Principal Subsidiary (as defined in the Terms and Conditions) equal to or greater than either (i) an individual amount of US$50,000,000 or (ii) an aggregate amount of US$150,000,000 (or their equivalents in another currency), as described in Condition 10(c) of the Terms and Conditions of the Notes.
Negative Pledge	There will be a negative pledge in respect of certain Relevant Indebtedness (as defined in the Terms and Conditions of the Notes) of the Issuer, the Guarantor and its Subsidiaries, as described in Condition 4 of the Terms and Conditions of the Notes. The protection that the negative pledge affords to Noteholders is limited in the following key ways: (1) As the definition of Relevant Indebtedness is limited to present or future Indebtedness (as defined in the Terms and Conditions of the Notes) 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, the Issuer, LUKOIL and their Subsidiaries will be permitted to secure a range of other forms of Indebtedness without any obligation to provide equal and ratable security in respect of the notes or the guarantees, as the case may be. (2) The Issuer, LUKOIL and their Subsidiaries will be further 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 Notes), without any obligation to afford any equal and ratable security to Noteholders. As a result, the Issuer, LUKOIL and their Subsidiaries may create security in respect of a significant amount of their Relevant Indebtedness without, at the same time, being obliged to grant equal and ratable security in respect of the notes or the guarantees, as the case may be. We urge you to read the Terms and Conditions of the Notes in their entirety and, in particular, Condition 4, which relates to the negative pledge.
Covenants	The Terms and Conditions of the Notes contain covenants in respect of mergers and the payment of taxes. For more information, see "*Terms and Conditions of the Notes*".
Tax Redemption	The Issuer may redeem the notes, in whole but not in part, at their principal amount, plus accrued interest, in the event of certain changes in taxation in The Netherlands or Russia.
Redemption and "Make-Whole" Premium	The Issuer may also choose to redeem the notes prior to the relevant Maturity Date, in whole or in part, on not less than 30 nor more than 60 days' irrevocable notice, by paying a redemption price equal to the sum of: (1) 100% of the principal amount of the notes to be redeemed, plus

	(2) the Applicable Premium (as defined in the Terms and Conditions of the Notes), plus (3) accrued and unpaid interest thereon, if any, to the redemption date.
Listing of Notes	An application has been made to list the notes on the Official List of the UK Listing Authority and for the notes to be admitted to trading on the Market.
Ownership Restrictions	Neither Euroclear, Clearstream, Luxembourg nor DTC will monitor compliance with any transfer or ownership restrictions.
Transfer Restrictions	The notes and the guarantees have not been and will not be registered under the Securities Act. You may offer to sell the notes only in transactions exempt from, or not subject to, the registration requirements of the Securities Act and in compliance with all applicable laws of any relevant jurisdiction. See ''*Transfer Restrictions*''.
ERISA Considerations	The notes may be acquired by an ''employee benefit plan'' (as defined in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended, or ERISA) that is subject to Title I of ERISA, a ''plan'' described in and subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the Code), any entity whose underlying assets include, or are deemed to include, ''plan assets'' by reason of such employee benefit plan's or plan's investment in the entity or any employee benefit plan which is subject to any federal, state or local law, or foreign law, that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code (Similar Law), provided that such purchase and holding of the notes will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a another employee benefit plan subject to Similar Law, a violation of any Similar Law). Each purchaser and/or holder of notes and each transferee thereof will be deemed to have made certain representations as to its status under ERISA and the Code. Potential purchasers should read the sections entitled ''*Taxation —ERISA*'' and ''*Transfer Restrictions*''.
Trustee	Citicorp Trustee Company Limited.
Principal Paying Agent and Registrar	Citigroup Global Markets Deutschland AG.
Governing Law and Arbitration	The notes and the trust deeds (including the guarantees) and any non-contractual obligations arising out of or in connection with the notes and the trust deeds (including the guarantees) will be governed by and construed in accordance with English law and contain provisions for arbitration in London, England.
Use of Proceeds	After deduction of commissions and expenses (including total expenses related to the listing and admission to trading of the notes), which are expected to be approximately US$3,000,000, we anticipate the net proceeds of the issue of the notes to be approximately US$2,997,000,000. We intend to use the net proceeds from the issue of the notes for general corporate purposes.

Security Identification	**ISIN**	**Common Code**	**CUSIP**
2018 Rule 144A notes	US549876AG58	—	549876 AG5
2023 Rule 144A notes	US549876AH32	—	549876 AH3
2018 Regulation S notes	XS0919502434	091950243	—
2023 Regulation S notes	XS0919504562	091950456	—

SUMMARY CONSOLIDATED FINANCIAL AND OTHER INFORMATION

The following table sets forth a summary of our audited annual consolidated financial information. You should read the following summary information together with "Selected Consolidated Financial and Other Information", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes and unaudited supplementary oil and gas information thereto included elsewhere in this prospectus. The financial information contained herein has been extracted from our annual consolidated financial statements and notes, which have been prepared in accordance with U.S. GAAP and audited by KPMG. Investors should read this prospectus as a whole and not rely solely on selected or summarised information.

	Year ended 31 December		
	2012	**2011**	**2010**
	(millions of U.S. dollars, except per share amounts)		
Consolidated Statement of Comprehensive Income:			
Revenues			
Sales (including excise and export tariffs)	139,171	133,650	104,956
Costs and other deductions			
Operating expenses	(9,359)	(9,055)	(8,298)
Cost of purchased crude oil, gas and products	(64,148)	(59,694)	(43,250)
Transportation expenses	(6,171)	(6,121)	(5,608)
Selling, general and administrative expenses	(3,755)	(3,822)	(3,558)
Depreciation, depletion and amortisation	(4,832)	(4,473)	(4,154)
Taxes other than income taxes	(13,666)	(12,918)	(8,978)
Excise and export tariffs	(22,836)	(22,217)	(18,878)
Exploration expense	(364)	(532)	(336)
Gain (loss) on disposals and impairments of assets	30	(1,663)	(363)
Income from operating activities	**14,070**	**13,155**	**11,533**
Interest expense	(538)	(694)	(712)
Interest and dividend income	257	211	174
Equity share in income of affiliates	518	690	472
Currency translation loss	(512)	(301)	(122)
Other non-operating income (expense)	(72)	58	125
Income before income taxes	**13,723**	**13,119**	**11,470**
Current income taxes	(2,738)	(2,678)	(2,104)
Deferred income taxes	(60)	(615)	(247)
Total income tax expense	**(2,798)**	**(3,293)**	**(2,351)**
Net income	**10,925**	**9,826**	**9,119**
Net loss (income) attributable to non-controlling interests	79	531	(113)
Net income attributable to OAO LUKOIL	**11,004**	**10,357**	**9,006**
Earnings per share of common stock attributable to OAO LUKOIL (in U.S. dollars):			
Basic	14.47	13.30	10.95
Diluted	14.17	13.04	10.94
Other comprehensive income, net of tax:			
Defined benefit pension plan:			
Prior service cost arising during the period	–	22	12
Actuarial loss	(15)	(9)	(4)
Other comprehensive (loss) income	**(15)**	**13**	**8**
Comprehensive income	**10,910**	**9,839**	**9,127**
Comprehensive loss (income) attributable to non-controlling interests	79	531	(113)
Comprehensive income attributable to OAO LUKOIL	**10,989**	**10,370**	**9,014**

	As of 31 December		
	2012	2011	2010
	(millions of U.S. dollars)		
Consolidated Balance Sheet Data:			
Cash and cash equivalents	2,914	2,753	2,368
Property, plant and equipment	66,883	56,803	54,629
Total assets	98,961	91,192	84,017
Total liabilities	24,773	23,726	24,409
Total OAO LUKOIL stockholders' equity	(73,207)	(67,638)	(59,197)

Summary Reserves and Production Information

The reserves and production information in this prospectus includes reserves and production that we do not beneficially own which are attributable to minority interests in our consolidated subsidiaries and our equity share of reserves and production of our affiliated companies. Unless otherwise specified, the reserves and production information in this prospectus does not include information relating to:

- reserves related to the Imilorskoye, West Imilorskoye and Istochnoye fields; or
- any of the acquisitions or transactions that we have commenced or completed in 2013.

We have extracted the reserves information set out below without material adjustment from the reserves reports prepared by Miller and Lents. See ''*Presentation of Reserves and Resources*''. We have extracted the production information set out below without material adjustment from our management accounts and operating records. We use this reserves and production information in managing our business and we expect to continue to report on such reserves and production information in our annual reports.

	As of 31 December		
	2012	2012	2011
Reserves			
Crude oil (mmbls)			
Proved	13,381	13,403	13,319
Probable	5,933	6,669	6,474
Gas (bcf)			
Proved	23,487	23,196	23,615
Probable	10,738	10,476	11,888
Crude oil and gas (mmboe)			
Proved	17,296	17,269	17,255
Probable	7,723	8,415	8,455

	Year ended 31 December		
	2012	2011	2010
Production			
Crude oil (mmbls)	677.0	684.5	721.6
Russia	633.9	638.8	673.8
International	43.1	45.7	47.8
Gas available for sale (bcf)	703.9	636.9	639.2

USE OF PROCEEDS

After deduction of commissions and expenses (including total expenses related to the listing and admission to trading of the notes), which are expected to be approximately $3,000,000, we anticipate the net proceeds from the issue of the notes to be approximately $2,997,000,000. We intend to use the net proceeds from the issue of the notes for general corporate purposes.

RISK FACTORS

Investing in the notes involves a high degree of risk. You should carefully consider the risks, and the other information contained in this prospectus, before you decide to invest in the notes. The trading price of the notes 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. If any of the following risks were to materialise, our business, financial condition, results of operations and prospects could be materially adversely affected and it could affect the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

Risks Relating to Our Business and the Oil and Gas Industry

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 in the future may 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. Market volatility, which began in late 2008, has continued throughout recent years. In particular, global financial markets have experienced increased volatility since the second half of 2011, a period which has seen the sovereign rating downgrades of, amongst others, the United States, France, Japan, Austria, Greece, Ireland, Portugal, Spain and Italy. There can be no assurance that a further economic downturn or financial crisis will not occur. The countries in which we operate, particularly Russia, and most of the countries in which our products are sold, have experienced declining gross domestic product (GDP), reduced industrial production, increasing rate of unemployment and decreasing asset values.

A deterioration of the financial condition of our customers could have an adverse impact on their credit ratings and/or access to capital which, in turn, could lower demand for our products and services. Furthermore, a worsening in the financial condition of our joint venture partners could adversely affect our operations. In addition, a deterioration in the global financial markets could lead to the downgrade of lenders' credit ratings, both in Russia and abroad, making access to credit more difficult and costly, which could hurt our liquidity and prevent us from obtaining financing needed to fund our development strategy.

Adverse economic developments of the kind described above have negatively affected and may continue to negatively affect our business in a number of ways and could have a material adverse effect on our operating results and financial condition. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Main Factors Affecting Our Results of Operations*" for more information.

Economic instability in the European monetary system may adversely affect our business, financial condition and results of operations.

There have been continued concerns over the stability of the European monetary system and the stability of certain European economies, notably Cyprus, Greece, Ireland, Portugal, Spain and Italy. Though repeated summits of, and attempts by, European leaders to find a lasting solution to such countries' ability to repay their debt have produced bail-out packages and restructuring agreements for certain countries such as Greece, there remain continuing doubts concerning the stability of the European monetary system and economy. There can be no assurance that a further decline in the stability of European economies or collapse of the European monetary system will not occur. Further deterioration or collapse of European economies or the European monetary system could have a material adverse effect on our operating results and financial condition.

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 risk factors affecting prices for crude oil, refined products, natural gas and petrochemical products. These factors include:

- global and regional economic and political developments in resource-producing regions, particularly in the Middle East, Africa and South America;
- 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 crude oil 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;
- the prime cost and availability of alternative and competing fuels;
- Russian and foreign governmental regulations and actions, including export restrictions and taxes;
- unexpected failure in the infrastructure and industrial accidents;
- the cost and availability of new technology; and
- weather and climate conditions and natural disasters.

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.

Future movements in the prices of crude oil, refined products and petrochemical products cannot be predicted with certainty. For example, crude oil pricing has been particularly volatile over the past several years. According to data from Platts, the spot price per barrel for Brent crude, an international benchmark oil blend, in 2009 ranged from a low of $39.66 on 18 February to a high of $78.86 on 18 November, averaging $61.67 per barrel for the year; in 2010 ranged from a low of $67.57 on 25 May to a high of $94.00 on 29 December, averaging $79.50 per barrel for the year; in 2011 ranged from a low of $93.69 on 4 January to a high of $126.65 on 11 April, averaging $111.26 per barrel for the year; and in 2012 ranged from a low of $88.61 on 25 June to a high of $128.18 on 8 March, averaging $111.67 per barrel for the year. On 31 March 2013, the price was $107.39 per barrel. International natural gas, refined products and petrochemical products prices, which typically follow changes in international oil prices, have also fluctuated considerably in recent years, leading to changes in refining margins that can affect our profitability.

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. 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. In addition to the adverse effect on revenues, margins and profitability from any fall in oil and natural gas prices, a prolonged period of low prices or other indicators could lead to further reviews for impairment of the Group's oil and natural gas properties. Such reviews would reflect the management's view of long-term oil and natural gas prices and could result in a charge for impairment that could have a significant effect on the results of our operations in the period in which it occurs. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Main Factors Affecting Our Results of Operations—Change in Price of International Crude Oil and Refined Products*" for more information on the impact of crude oil price volatility on our results of operations.

Our Russian subsoil use licences may be terminated, suspended or limited 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. We may be subject to fines and our licences may be terminated, suspended or limited if we breach 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, fail to provide reports, as well as in the event of liquidation or failure to fulfil any capital expenditure and/or production obligations.

Our production licences generally have a term of 20 years, while our combined exploration and production licences generally have a term of 25 years. Many of our original licences, especially those relating to our Western Siberia operations, expire between 2013 and 2014. We have been working to secure the extension of our licenses. Current 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. Regulatory authorities can exercise considerable authority in issuing and renewing licenses. 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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

We may be unable to comply with certain licence requirements for some or all of our licence areas. In the ordinary course, we are subject to audits by the Russian authorities related to compliance with the terms of our licenses. As of the date of this prospectus, we are not aware of any material violations of our licenses. However, 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, revoke or terminate our licences, any of which could have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

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 could be subject to revocation. A loss of any such licence could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

To operate our business as currently contemplated, we must also 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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

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 Russian national crude oil pipeline network, which is operated as a monopoly by the state-owned company JSC "Transneft" (Transneft). As with any such pipeline system, the Transneft pipeline system is subject to breakdowns and leakage. Despite ongoing efforts of Transneft to decommission and replace obsolete segments of the pipeline, as well as to expand its pipeline network, 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. 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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

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. Historically, the Transneft pipeline system did not have sufficient capacity to meet the total demand for crude oil pipeline exports of Russian oil producers. In recent years, Transneft has made substantial investments in the development of additional export routes and trans-shipment terminals in order to increase capacity. However, failure by Transneft to maintain or sufficiently increase the capacity of the Transneft system or the occurrence of breakdowns and leakages in the Transneft system could require us to use more expensive alternative export routes or to sell excess production in the domestic market, either of which could result in a decline in our profit margin.

We, along with all other Russian crude oil producers, must pay transportation fees to Transneft in order to transport crude oil and refined products 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 in the future. Beginning in September 2011, Transneft's tariffs for crude oil transportation increased by 2.85% on average. Then, in November 2011, the FTS further increased tariffs for oil transportation by another 5.0% on average. At the end of September 2012, FTS increased Transneft's tariffs for oil transportation by 5.5% on average. 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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

We face similar risks in some of the other countries where we operate. We can give no assurance that other oil pipeline companies transporting our crude oil or refined products will not cause disruptions in the transportation of our crude oil 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, rail freight prices are subject to annual adjustment based on, among other factors, inflation and the funding requirements of Russian Railways' capital investment program, which is in turn affected by the acute need to upgrade track infrastructure and passenger- and cargo-handling facilities. Railway tariffs for freight were increased by 9.4%, 8.0% and 6.0% in 2010, 2011 and 2012, respectively, according to the FTS. Railway tariffs for freight are expected to increase further by 7.0% in 2013, based on information from the FTS. Significant increases in Russian Railways' fees would increase our transportation costs and could materially adversely affect our business, financial condition and results of operations. Moreover, increased dependence on rail transport could lead to a general increase in transportation costs to the point where the economics of transporting by rail is inefficient, or could lead to our inability to meet export plans, causing a temporary diversion of crude oil and oil products on the domestic market and a reduction in domestic prices.

The pipeline system of Transnefteproduct, a subsidiary of Transneft, transports a portion of our refined products produced in Russia. Transnefteproduct is a state-owned refined product pipeline monopoly. 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. From 1 December 2010, Transnefteproduct's tariffs were increased by 9.5% on average for export transportation of refined products and from 1 January 2011, Transnefteproduct's tariffs were increased by 5.9% on average for domestic transportation of refined products. In January 2012, these tariffs were further increased by 6.0% on average for both export and domestic transportation of refined products. Any significant disruption in the pipeline system or significant increase in Transnefteproduct's fees could materially adversely affect our business, financial condition and results of operations.

Further, our ability to exploit reserves discovered in remote locations is dependent upon, among other things, the availability of the necessary infrastructure to transport oil and gas to potential buyers at a

competitive price. For example, 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 may hinder sales of oil and gas to international markets. We also face obstacles related to 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.

Any restriction on our ability to access the necessary infrastructure to transport oil and gas, including any limitation on our access to Transneft's pipeline network or Russian Railways' rail network, could negatively impact our ability to transport our crude oil and/or refined products within Russia or to export our crude oil and/or refined products internationally, which in turn could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

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

As of 31 December 2012, our gas reserves in Russia comprised 74.5% 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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

The Unified Gas Supply System (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-FZ "On Gas Export", dated 18 July 2006, 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. See "*Business—Transportation—Gas Transportation*" for more information about our transportation of gas through the UGSS. 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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

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. Although Gazprom has recently announced a major renovation and expansion programme of the UGSS that is due to be completed by 2017, any 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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees could be materially adversely affected.

Gazprom is the monopoly supplier of gas in Russia. The Russian Government regulates the prices for the gas that Gazprom sells in Russia. 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.

Global gas market conditions may also affect internal natural gas prices in Russia. Such factors as shale gas production growth, increased trade of LNG, pipeline infrastructure expansion, increased spot trading and gas demand decline may have a negative impact over gas prices on the main foreign sales markets of Gazprom and limit competition in the Russian internal market.

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. See ''*—Risks Relating to Our Business and the Oil and Gas Industry—We have international operations in politically, economically and legally unstable areas, which expose us to risks which could have an adverse effect on our operating results and financial condition*'' for information on the relevant jurisdictions in which we operate. See ''*Business—Exploration and Production—International Exploration and Production*'' for information on our various 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 curtailed, delayed or cancelled or may prove to be 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 water cut. 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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

Russian Subsoil Law provides that certain subsoil areas shall be considered as having federal importance. These subsoil areas include areas that, in particular, contain recoverable oil reserves of at least 70 million tonnes or natural gas reserves of at least 50 bcm and any subsoil areas located in domestic sea waters or territorial seas or in any continental shelf of Russia. Pursuant to the Subsoil Law, rights to develop oil fields designated as having federal importance situated on the continental shelf, or within 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. See "*Regulation of the Oil Industry in the Russian Federation—Subsoil Production Licences—Issuance of licences*" for more information on the use and legal status of the subsoil areas of federal importance.

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 rate 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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

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. See "*Business—Competition*". In March 2013, Rosneft completed its acquisition of BP's 50% stake in TNK-BP, resulting in it acquiring 100% control over TNK-BP. As a result of this acquisition, Rosneft became the world's largest listed oil company by output, with production estimated at more than 4.5 million barrels a day, as well as the world's biggest listed oil company in terms of market capitalization. Rosneft is our primary competitor in Russia, and its acquisition of TNK-BP could increase Rosneft's competitive edge both in Russia and internationally.

The key activities in which we face competition are, among others:

- acquisition of exploration and production licences at auctions or tenders run by governmental authorities;
- acquisition of other companies that may already own licences or existing hydrocarbon-producing assets;
- implementation of foreign projects for prospecting, exploration and development of subsoil areas;
- 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;
- acquisition of or access to refining capacity; and
- marketing of crude oil, oil products and gas.

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.

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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

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

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 and export duties) are denominated in rubles. Our results of operations are, therefore, significantly affected by the relative movements of 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 U.S. dollar terms relative to our revenues.

According to the Federal State Statistics Service, inflation in Russia in 2012, 2011 and 2010 was 6.6%, 6.1% and 8.7%, respectively. According to the CBR, the change in the nominal exchange rate (RUB/US$) as compared to the end of the previous year in 2012, 2011 and 2010 was (5.5%), 3.4% and 4.3%, respectively, while the change in the real exchange rate (RUB/US$) was (2.7%), 8.8% and 9.7% against the U.S. dollar in those same periods, respectively. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Main Factors Affecting Our Results of Operations—Changes in U.S. Dollar-Ruble Exchange Rate and Inflation*" for more information regarding ruble inflation and movements in U.S. dollar/ruble exchange rates. Our operating margins could be 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.

We currently do not comprehensively hedge our exposure to foreign currency rate changes, although we selectively hedge certain foreign exchange rate exposures. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures about Market Risks—Foreign Currency Risk*" for discussion of how recent foreign exchange movements have impacted our business and of our hedging policies.

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

As of 31 March 2013, LUKOIL's President, Vagit Alekperov, and Vice President for Strategic Development, Leonid Fedun, owned 21.05% and 9.6%, respectively, of our share capital (taking into account beneficiary ownership). Together with other members of LUKOIL's Board of Directors and Management Committee, they collectively owned approximately 32.5% of LUKOIL as of 31 March 2013. As such, these insiders 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 election and early removal of the members of the Management Committee;
- 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 notes.

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. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations, Other Contingencies and Off Balance Arrangements—Capital Commitments and Contractual Obligations*" for an analysis of our planned capital expenditures.

We rely on our cash flows from our operating activities and on external sources, including bank borrowings and offerings of debt or equity securities in the international capital markets to finance our capital expenditures. 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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

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

We currently have, and will continue to have upon the completion of the issuance of the notes, substantial amounts of outstanding indebtedness, including other previously issued notes and our obligations under existing credit arrangements. We may seek additional financing in the future through the placement of additional bank or capital markets financing. We may also obtain working capital lines of credit, additional long-term debt, 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 notes. 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 notes. Such defaults could delay or preclude payments of interest or principal on our indebtedness, including the notes.

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 cleanup 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, aimed at improving our environmental monitoring system and minimising any negative environmental impacts caused by our operations. In July 2011, our management committee approved a 2011-2013 update to the Group's Environmental Safety Programme and associated financing in the amount of approximately $2 billion for 2011-2013. In 2012, the Group spent $754 million on environmental safety measures, compared with $718 million in 2011 and $715 million in 2010. There can be no assurance that actual costs incurred by the Group for 2011-2013 will not exceed the $2.0 billion approved by our management committee for such period or that the Group will not incur substantially higher costs in the future as compared to previous years. Further, there can be no assurance that our Environmental Safety Programme or any environmental safety measures implemented in connection with such programme will protect us from negative environmental impacts caused by our operations.

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. We have implemented procedures 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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

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. 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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

Increasingly strict environmental requirements, including those relating to gasoline sulphur levels, diesel quality and the aromatic content of gasoline, 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. Failure to meet certain international standards at our refineries could have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

Regulatory measures designed to address climate change and physical effects attributed to climate change may adversely affect our businesses.

Growing public concerns in the European Union and globally that rising greenhouse gas emissions and climate change may significantly affect the environment and society could adversely affect our businesses,

including by the addition of stricter regulations that increase our operating costs, affect product sales and reduce profitability. Furthermore, our business operates in varied locales where the potential physical impact of climate change, including changes in weather patterns, is highly uncertain and may materially adversely affect our business, financial condition and results of operations.

We are exposed to potential losses and liabilities arising from 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, production facilities, pipelines and other property and damage to the environment. For example, in February 2013, a fire at our refinery in Ploiesti, Romania temporarily interrupted production at the refinery.

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, the potential impact of a release on the environment and people could be very significant.

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.

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 and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

The crude oil and natural gas reserves data in this prospectus 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 included in this prospectus 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 2012, 2011 and 2010 reports of Miller and Lents. No more recent reserve estimates than those contained in such reports of Miller and Lents will be included in this prospectus. For further information on the standards used in preparing estimated crude oil and gas reserves, see "*Presentation of Reserves and Resources*".

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 of 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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

The discounted and undiscounted pre-tax future net revenues included in this prospectus 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 have international operations in politically, economically and legally unstable areas, which expose us to risks which could have an adverse effect on our operating results and financial condition.

As of 31 December 2012, approximately 5.0% 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 Azerbaijan. We also have upstream interests in Uzbekistan, Egypt, Saudi Arabia, Iraq, Romania, Vietnam, Venezuela, Ghana and Cote d'lvoire. As of 31 December 2012, approximately 25.0% of our proved gas reserves were located outside of Russia, primarily in Kazakhstan, Uzbekistan and Azerbaijan. In addition, we have refining operations in Ukraine, Bulgaria and Romania.

In January 2010, LUKOIL signed a PSA to develop the West Qurna-2 field located in the south of Iraq. The West Qurna oil field is one of the largest in the world not yet being developed and is located in Southern Iraq, northwest of the city of Basra. See "*—Risks Relating to Our Business and the Oil and Gas Industry—We may not be able to realise opportunities in Iraq*" and "*Business—Exploration and Production—International Exploration and Production—Iraq—West Qurna-2*" for information on our rights in relation to the West Qurna-2 oil field.

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 Cote d'lvoire for much of the past two decades. The "Arab Spring", which began in December 2010, resulted in a wave of demonstrations, protests and wars throughout the Middle East and North Africa, including in countries in which we operate or have made strategic investments (such as Egypt, Saudi Arabia and Iraq).

Additionally, international sanctions (as implemented by relevant domestic laws) apply to companies engaging in specified volumes or types of business with specified countries, including Cuba, Iran, North Korea, Sudan and Syria. If we were to violate sanctions regimes to which we are subject, penalties could include a prohibition or limitation on our ability to obtain goods and services on the international market or to access U.S. or other capital markets or financing. In 2010, two U.S. congressmen sent a letter to the U.S. President accusing LUKOIL of engaging in sales of petroleum products to Iran in violation of U.S. sanctions subsequent to enactment and implementation of the U.S. Comprehensive Iran Sanctions

Accountability and Divestment Act of July 1, 2010. We denied these claims, and have not been subject to any violations of any international sanctions in Iran or elsewhere. Nonetheless, the international sanctions regime against Iran resulted in the termination of and withdrawal from our geological exploration of the Anaran field in Iran. We booked an impairment loss of $63 million in 2009 for the abandonment of this project. While we are not currently involved in any operations or transactions in countries that could result in sanctions against our Group, any violations of sanctions by us could have a material adverse effect on our operating results and financial condition.

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. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Changes in the Group Structure, Acquisitions and Disposals of Assets*" for a discussion of our recent acquisitions. 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. In addition, difficulties can arise in retaining key employees crucial to the success of the newly acquired businesses. 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. Further, the synergies and economies of scale from which we expect to benefit through these acquisitions may not be realised in full or at all.

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. 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. In April 2012, we began production drilling and construction of an oil processing unit on the West Qurna-2 field and in May 2012, Statoil's stake in West Qurna-2 project was transferred to LUKOIL, increasing our total share in the project to 75%. The PSA was amended in January 2013 and currently has a term of twenty five years. Further, in January 2013, the Iraqi Government announced that it was limiting output at the West Qurna-2 region in order to increase oil prices.

In October 2012, the Iraqi Government approved a geologic exploration, development and production contract for Block 10 located in the southern part of Iraq in the Di-Kar and Mutannah provinces. In June 2012, we, along with the Japanese INPEX Corporation, won a competitive bidding process to obtain a license to operate in Block 10. Although, to date, we have been successful in our bids for rights to develop oil fields in Iraq, including 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 these oil fields or that we will recoup our significant investments in such fields. Further, there can be no assurance that political, economic or other factors will not delay or impede our ability to develop the oil fields in Iraq.

The success of the Group depends in part upon the efforts and abilities of our senior managers and key personnel and may be affected by shortages of skilled labour.

Our growth and future success depend in significant part upon the continued contributions of a number of our key senior management, in particular our President, Director and Chairman of our Management Committee, Vagit Yusufovich Alekperov, as well as the efforts and abilities of other key personnel, in particular skilled technical personnel in both upstream and downstream activities. We can give no assurance that Mr. Alekperov's services or the services of other key persons will continue to be available to us, or that we will be able to continue to attract and retain such personnel.

The competition in Russia for skilled technical personnel can be intense due to the limited number of qualified individuals. The demand and related costs for skilled employees is expected to continue to increase, reflecting significant demand from other industries and public projects. Continued high demand for skilled labour in light of an unfavourable demographic situation and continued increases in labour costs could have an adverse effect on our operating results and financial condition.

If the Russian Federal Antimonopoly Service 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, cartels, concerted actions which limit competition and unfair competition. Developments in the Russian antimonopoly law have resulted in stronger state control over market participants.

LUKOIL and some of its subsidiaries in the recent years have been found in breach of the Federal Law No. 135-FZ on Protection of Competition dated 26 July 2006, as amended (the Antimonopoly Law) as entities with a dominant position in the relevant markets for setting monopolistic high prices and for other anti-competitive behaviour. Pursuant to Article 5 of the Antimonopoly Law, a dominant position is found where an entity or a group of entities has definitive influence over the general terms of the goods' turnover at the relevant market, may remove other participants from such markets or may hinder their entry to the market subject to certain other criteria. Some of our Group companies are on the list of entities whose share of the markets of certain goods exceeds 35%, which makes them subject to higher control regime. Such companies include those in the gasoline and diesel retail, dark and light petroleum products, electric and heat power industries, which operate in various regions of Russia. Administrative penalties imposed by the Russian Federal Antimonopoly Service (FAS) may be substantial with some of these penalties calculated as percentage (up to 15%) of the profit received by an entity from the sale of goods in the relevant market. The Antimonopoly Law also grants the FAS with the power to require entities to perform certain actions, including, among others, to sell products at an exchange and to coordinate with the FAS the detailed requirements for setting out the initial bid for the sale at an exchange. Imposition of administrative sanctions by the FAS or the imposition by the FAS of restrictions on our Group could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees. Court practice relating to contesting decisions of the FAS, in particular in cases regarding abuse of dominant position and taking concerted actions with other market participants, lacks consistency, but often the Russian courts support the position of the FAS and its regional branches.

In furtherance of the Competition Promotion Programme approved by the Government of the Russian Federation in May 2009 (which was replaced at the end of 2012 with the action plan ''Competition promotion and development of antimonopoly policy''), the FAS prepared drafts of the Federal Law on Market Pricing of Oil and Petroleum Products in the Russian Federation (the Draft Law on Market Pricing) and of the Federal Law on particularities of Oil and Oil Products Turnover in the Russian Federation (the Draft Law on Oil and Oil Products Turnover), which as of the date of this prospectus have not been introduced to the State Duma for consideration. One of the purposes of the Draft Law on Market Pricing is to promote a stable and viable petroleum products market to satisfy domestic demand for oil and petroleum products, and to establish a pricing mechanism that would foster competition in the markets. To achieve these objectives, the Draft Law on Market Pricing introduces an algorithm to determine three price indicators – price index of comparable international markets, exchange prices index and OTC domestic market index. The Draft Law on Market Pricing would also establish a procedure for the mandatory registration at commodity exchanges of all OTC oil and petroleum product transactions.

Some other elements of the Draft Law on Market Pricing and the Draft Law on Oil and Oil Products turnover include:

- A prohibition affecting entities with a dominant position in the relevant motor or jet fuel markets, restricting their ability to combine retail and wholesale sales of motor fuel or retail and wholesale sales of jet fuel. According to public statements made by the FAS, this prohibition is not intended to require a group that is involved in both the retail and the wholesale markets to sell either of its businesses, but rather to require the group to form separate legal entities for each business and comply with certain independent reporting requirements.

- A prohibition affecting motor fuel retail sale entities whose share in the relevant market exceeds 35% of the total volume of the motor fuel sold in that market, to purchase, lease or otherwise acquire retail gasoline stations or land plots for the construction of retail gasoline stations.
- A requirement affecting entities which own or use oil reservoirs on any other grounds, with the capacity of such reservoirs exceeding 35% of the total capacity of all oil reservoirs located in the territory of the relevant subject of the Russian Federation, to provide services for the motor fuel storage on a non-discriminatory basis.
- The creation of an Exchange Council comprised of representatives from the government and sellers and buyers of exchange commodities, as well as representatives from other infrastructure organizations (commodity exchanges, clearing agencies, etc.). The proposed purpose of the Exchange Council is to develop the oil and petroleum product exchange trade and promote competition in the commodity markets.
- The imposition of disclosure standards, which would require exchanges and analytical agencies to provide certain information regarding the calculation of price indices, oil and petroleum product exchange prices, registered oil and oil product OTC indices. This information would be published in the media and on the Internet and would not include information about the parties to the transactions. Oil companies would also be required to disclose information on the volumes of the extracted oil and of the stock of oil products at oil reservoirs, on the volumes of refined oil and produced oil products, as well as on the stock of oil products at oil refineries.

Some of the above described regulations may significantly affect our business; however, as of the date of this prospectus, the Draft Law on Market Pricing and the Draft Law on Oil and Oil Products have not been considered or passed by the State Duma and are not in effect. Accordingly, the timing for entry into force of the Draft Laws, their potential interpretation by state authorities (including the courts), and its impact on our business and operations, is uncertain.

The FAS considers the sale of oil and oil products through commodity exchanges as one of the key components to fostering increased competition. On 31 January 2013, the FAS and the Ministry of Energy of the Russian Federation signed an order on the minimum amounts of oil products that must be sold through exchange sales by entities with a dominant position in the relevant wholesale commodities' markets (the Joint Order). According to the Joint Order, the minimum amounts to be sold through a commodity exchange are: 10% for the automobile gasoline, 5% for diesel, 10% for jet engine fuels and 2% for masut. All percentages are to be calculated based on the monthly produced volumes. The Joint Order has not yet become effective as of the date of this prospectus. Accordingly, the timing for entry into force of the Joint Order, its potential interpretation by state authorities (including the courts), and its impact on our business and operations, is uncertain.

To the extent that any of the above-mentioned proposed amendments become law, they could result in additional restrictions on our business and operations, which (depending on the nature of these restrictions) could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

If the Russian Federal Antimonopoly Service 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/or may file a claim seeking 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. 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/or they could file a claim seeking 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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

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 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. Transneft has recently reported that the quality of crude oil blended in the system declined in 2012 and may continue to decline. 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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

Our business operations could be disrupted if our existing and new management information and accounting 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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

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 said 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 of 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. For information about certain pending legal proceedings that may have, or have had in the recent past, a significant effect on our financial position or profitability, see "*Additional Information Regarding the Company—Litigation and Claims*".

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 may force us to incur further capital expenditures to upgrade our refineries.

All of the fuel produced at our refineries meets Russian domestic quality standards and, beginning in July 2012, all of our refineries in Russia began exclusively manufacturing Euro-5 compliant gasoline. The Group actively seeks the latest technologies in modernization of its refineries in order to improve the quality of production and reduce our environmental impact. However, despite our efforts, a risk remains that Russia and other countries in which we operate may introduce more stringent standards for cleaner fuels, which may vary from our current expectations. We intend to work closely with the relevant federal and local authorities to understand the timing for any changes in fuel quality standards. However, any material change to fuel quality standards could force us to incur further capital expenditures to upgrade our refineries and could limit our market for fuel supply until refinery technical upgrades are completed. See "*Business—Refining, Marketing and Distribution—Refining*".

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 notes.

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 this prospectus 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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

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 and other compulsory payments and levies imposed at the federal, regional and local levels, which include, among others, corporate income tax, mineral extraction tax, value added tax, excise duties, export duties, compulsory insurance payments and 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 locations in which we operate.

The existing Russian tax laws, such as the Russian 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. The taxation system in Russia is subject to frequent changes and inconsistent enforcement at the federal, regional and local levels. Historically, the system of tax collection in Russia has been relatively ineffective, resulting in continuous changes to the tax legislation, some of which apply retroactively and occur with little notice, and also to the interpretation and application of the existing laws and regulations by the various authorities. Although Russia's tax climate and the quality of Russian tax legislation have generally improved with the introduction of the Russian Tax Code, there can be no assurance that the Russian Tax Code will not be changed in the future in a manner that will be adverse to the stability and predictability of the Russian tax system. The possibility exists that the Government may impose arbitrary or onerous taxes, levies, fines and penalties in the future, which could adversely affect our business.

Since Russian federal, regional and local tax laws and regulations are subject to frequent change and, in addition, some sections of the Russian Tax Code are comparatively new, interpretation and application of these laws and regulations is often unclear and inconsistent. The Russian tax system is, therefore, impeded by the fact that it continues to be characterized by inconsistent judgments of the tax authorities and the failure by these tax authorities to address the existing problems.

The current practice is that private clarifications to specific taxpayers' queries with respect to particular situations issued by the Russian Ministry of Finance are not binding on the Russian tax authorities and there can be no assurance that the Russian tax authorities will not take positions contrary to those set out in the private clarification letters issued by the Russian Ministry of Finance. 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 Russian tax authorities. In the absence of binding precedent or consistent court practice, rulings on tax or other related matters taken by different

courts relating to the same or similar circumstances may also be inconsistent or contradictory. In certain instances the tax authorities have shown a tendency to take 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. It is therefore possible that our transactions and activities that have not been challenged in the past may be challenged in the future.

Tax declarations together with the related documentation are subject to review and inspection by a number of Russian tax authorities, which are empowered by Russian laws to impose fines and penalties on taxpayers. Generally, tax declarations remain open and subject to inspection by the Russian tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax audit is taken. Tax audits can however go beyond this general three year term to cover the tax period for which an amended tax return (if any) has been filed. The fact that a particular year has been reviewed by tax authorities does not preclude that year from further review or tax audit by the Russian tax authorities during the three-year limitation (or the period extended by filing an amended tax return, as discussed above). In particular, a repeat tax audit may be conducted (i) by the Russian tax authority superior to that which has carried out the initial audit as a measure of control over the activities of lower-level Russian tax authorities, or (ii) in connection with the reorganisation or liquidation of a taxpayer, or (iii) as a result of the filing by such taxpayer of an amended tax return decreasing the tax payable to the revenue. Therefore, previous tax audits do not necessarily preclude subsequent claims relating to the audited period.

It should be noted, however, that on 17 March 2009, the Russian Constitutional Court issued a decision which deems unconstitutional provisions of the Russian Tax Code allowing to perform such repeat tax audits by a higher tax authority for the same tax period where there has been a court decision taken in respect of the tax dispute between the relevant taxpayer and the relevant tax authority over taxation matters raised during the initial tax audit. Currently, there is quite limited court practice relating to the application of this decision by Russian courts.

Further, the Russian Tax Code provides for the possible extension of the three-year limitation period with respect to liability for tax offenses if the taxpayer 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 and other branches of Russian law, the Russian tax authorities may attempt to interpret them broadly, effectively linking any difficulty experienced in the course of their tax audit with obstruction committed by the taxpayer, and use that as a basis to seek tax adjustments and penalties beyond the three-year limitation period. The statute of limitation is not therefore entirely effective with respect to liability for tax offenses, i.e. tax penalties, in Russia. Such an extended audit, if it concluded that we had significant tax underpayments relating to previous tax periods, may have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

In its decision No. 138-O of 25 July 2001, the Constitutional Court of the Russian Federation introduced the concept of ''a taxpayer acting in bad faith'' without clearly stipulating the criteria for its interpretation and application. Similarly, this concept is not defined in Russian tax law or other branches of Russian law. Based on the available practice the Russian tax authorities and courts often exercise significant discretion in interpreting this concept in a manner that is at times unfavourable to taxpayers.

On 12 October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation issued Ruling No. 53 which introduced the concept of an ''unjustified tax benefit''. This concept is defined by reference to the specific examples of tax benefits, such as absence of reasonable business purpose or transactions where the form does not match the substance, and which could lead to the disallowance of the application of that specific tax benefit 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 actively 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 Russian 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 there is no assurance that the courts will follow these precedents in the future.

Russian transfer pricing legislation which was effective prior 1 January 2012 was broad and vaguely drafted, generally leaving wide scope for interpretation at the discretion of the Russian tax authorities and courts, and there was limited guidance as to how these rules should have been applied. Moreover, in case a transfer pricing adjustment was made by the Russian tax authorities, the transfer pricing legislation did not provide for a corresponding offsetting adjustment to the related counterparty in the transaction.

New transfer pricing legislation came into effect on 1 January 2012. The list of the ''controlled'' transactions under this new law includes transactions performed with related parties and certain types of cross-border transactions. This new legislation has considerably increased the compliance burden for the taxpayers compared to the law that was in effect before 2012 due to, inter alia, new requirements related to the preparation and submission of transfer pricing notifications to the tax authorities and transfer pricing documentation at the request of the tax authorities. Although the new legislation is supposed to be in line with international transfer pricing principles developed by the OECD, there are certain significant differences of how these principles are reflected in the local rules. Special transfer pricing rules continue to apply to transactions with securities and derivatives. It is currently difficult to evaluate what effect these new provisions may have on the Group.

Accordingly, due to the uncertainties in the interpretation of transfer pricing legislation which was in effect before 2012 and the recently introduced new transfer pricing legislation, no assurance can be given that the Russian tax authorities will not challenge the Group's prices and make adjustments which could affect the Group's tax position unless the Group is able to justify the use of market prices with respect to ''controlled'' transactions supported by the appropriate transfer pricing documentation. The imposition of additional tax liabilities under the Russian transfer pricing legislation may have a material adverse effect on our business, financial condition, results of operations and prospects.

A new concept of a ''consolidated taxpayer'' was incorporated into the Russian Tax Code and became effective on 1 January 2012. There are several requirements that must be met for a group to be considered a ''consolidated taxpayer'' (the Tax Group) under this new legislation, including meeting revenue thresholds and the amount of corporate income tax payable by the Tax Group. The new rules introduced consolidated tax reporting, which enables Russian companies that form a Tax Group to consolidate financial results for corporate tax purposes. Intragroup transactions are to be included in the consolidated tax base and are arguably not subject to transfer pricing control. As of 1 January 2012, we have created a Tax Group consisting of the Group's Russian entities. However, there can be no assurance that this new consolidated taxpayer regime, or our creation of the Tax Group under this regime, will not be challenged in future due to, among other things, the lack of interpretive guidance and precedent by the Russian tax authorities and courts related to this new taxpayer regime. If any such challenge were effective, it could result in increased taxes, which in turn could have a material adverse effect on our business, revenues, financial condition, results of operations and prospects.

The Group operates in various jurisdictions and includes companies incorporated outside of Russia. Russian tax laws as currently in effect are not well developed with respect to the taxation of foreign companies in Russia or the operations of Russian companies outside of 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, we might become subject to additional taxation in Russia in respect of our operations outside Russia.

Although the Group intends to conduct its affairs so that foreign entities of the Group are not treated as having a permanent establishment in Russia, no assurance can be given that activities of these foreign entities will not be treated as creating a permanent establishment in Russia and subjected to Russian tax in a manner similar to the taxation of a Russian legal entity. Only the amount of the income of a foreign entity that is attributable to its permanent establishment should be subject to taxation in Russia.

Pursuant to the new transfer pricing rules, the amount of the income of a foreign entity that is attributable to its permanent establishment is to be measured based on the functions carried out by a Russian permanent establishment, accepted economic (commercial) risks attributable to such activity and the assets deployed. In order to determine the amount of income of a foreign entity that is attributable to a permanent establishment in Russia, the Russian tax authorities may perform a functional analysis of an activity performed by a foreign entity in the territory of Russia. However, the practice of application of these rules is not developed since such approach was introduced from 1 January 2012. There is, therefore,

a risk that the Russian tax authorities might seek to assess Russian tax on the entire amount of income of a foreign company attributable to its permanent establishment.

Recent events in the Russian Federation suggest that the Russian tax authorities may be more actively seeking to investigate and assert that foreign entities operate through a permanent establishment in Russia. Having a permanent establishment in Russia may also lead to other adverse tax implications, including challenging a reduced withholding tax rate under an applicable double tax treaty, a potential effect on VAT and property tax obligations. There is also a risk that penalties could be imposed by the Russian tax authorities for the failure to register a permanent establishment with the Russian tax authorities. Any such taxes or penalties could have a material adverse effect on the business, financial condition, results of operations or prospects of the Group.

Furthermore, Russian tax legislation in effect on the date of this prospectus does not contain a concept of tax residency for legal entities. Russian companies are taxed on their worldwide income whilst foreign entities are taxed in Russia on income attributable to a permanent establishment and on Russian source income. The Russian Government has been considering the introduction of the concept of tax residency for legal entities to the domestic tax law, in particular, for the purposes of preventing tax evasion. The same suggestion has been made by the Russian Government in the Main Directions of Russian Tax Policy for 2013 and the planned period of 2014-2015. It has been proposed to determine the tax residency of legal entities based on a number of criteria similar to those used in double tax treaties concluded by the Russian Federation. We can give no assurance as to whether and when these suggestions will be enacted, their exact nature, their potential interpretation by the Russian tax authorities or their possible impact on our foreign subsidiaries, including the Issuer. The Group cannot rule out that as a result of the introduction of these changes certain companies of the Group might be deemed to become Russian tax residents, subject to all applicable Russian taxes, which could have a material adverse effect on the business, prospects, financial condition and results of operations of the Group.

Further, the Government in its Main Directions of the Russian Tax Policy for 2013 and planned period of 2014-2015 also expressed its intention to introduce the "controlled foreign companies" rule into the Russian Tax Code. It is currently unclear how and when these proposed policies will be enacted (if at all) and what effect these provisions may have on the Group. The imposition of additional tax liabilities as a result of the application of the "controlled foreign companies" rule to transactions carried out by the Group may have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

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 burdens 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 complying with Russian tax legislation.

The occurrence of any of the events set out above could have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

Initiatives of the Russian Government to level export duties on dark petroleum products may adversely affect our business.

In October 2011, the Russian Government introduced a new formula for calculating export duties for crude oil and petroleum products, the so called "60/66 reform", which reduced the marginal export duty rate for crude oil from 65% to 60%. At the same time, the export duty for light petroleum products (such as diesel and jet oil, but excluding gasoline) decreased from 67% to 66% of the export duty for crude oil and the export duty on dark petroleum products was raised from 46.7% to 66% of the export duty for crude oil. The export duty on gasoline was set at 90% of the crude oil rate. The Russian Government has also stated that it plans to increase export duties for dark petroleum products up to the level set for crude oil after 2015. These new export duties were intended to increase the depth of the Russian refinery system by making it more costly to export dark petroleum products (such as fuel oil) thus decreasing the price within Russia and incentivise further refining. Even though we have invested significantly in modernising our Russian refineries, the increase in the export duty rate for dark petroleum products could result in increased operating costs, which could adversely affect our business, financial condition and results of operations.

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

As of 31 December 2012, approximately 47% of our revenues were derived from our operations in Russia. In addition, as of 31 December 2012, approximately 95% of our proved crude oil reserves were located in Russia. As such, any 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.

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. During the global financial and economic crisis throughout 2008 and 2009, there were periodic suspensions of trading on the Russian stock market, extreme volatility in the Russian securities markets, sharp fluctuations in the share prices of Russian financial institutions and downgrades in the sovereign credit ratings of the Russian Federation, as well as downgrades in the credit ratings of many Russian companies. There can be no assurance that a future economic crisis will not have a negative effect on investors' confidence in the Russian markets or economy or the ability of Russian-based groups to raise capital in the international markets, any of which, in turn, could have a material adverse effect on the Russian economy. A deterioration of the Russian economy could adversely influence the level of demand for our services and negatively impact our revenue 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 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 notes in particular.

Future changes in the Russian Government, the State Duma or the presidency, major policy shifts or eventual lack of consensus between the president, the Russian Government, Russia's parliament and powerful economic groups could lead to political instability, which could have a material adverse effect on the value of investments in Russia generally and the notes in particular, and our prospects could be harmed if there is further governmental instability or if the course of reform policies does not continue.

Emerging markets such as Russia are also subject to heightened volatility based on economic, military and political conflicts. For example, a military conflict in August 2008 between Russian and Georgia involving South Ossetia and Abkhazia resulted in a significant overall price decline for listed Russian securities. The emergence or escalation of any tensions in Russia or with neighbouring countries could negatively affect the economy of Russia. Such tensions or conflicts may lead to reduced liquidity, trading volatility and significant reductions in the price of listed Russian securities, with a resulting negative effect on the liquidity, stability and trading price of the notes and our ability to raise debt or equity capital in the international capital markets.

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. 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 the suicide bombing at Moscow's Domodedovo Airport in January 2011. 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 notes.

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 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. A large number 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. 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.

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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

The implementation of certain amendments to the Russian Civil Code may create an uncertain environment for business activities and investments.

On 30 December 2012, Russian President Vladimir Putin signed into law the first set of amendments to the Russian Civil Code, which form part of a proposed major reform of the Russian civil legislation. The majority of the amendments became effective on 1 March 2013. The amendments relate primarily to certain basic principles of civil law, limits to the exercise of civil rights, regulation of state registration of rights to certain types of property, as well as the principle of compensation for losses incurred as a result of lawful acts of state authorities.

As part of the reforms to the Russian Civil Code, a second set of amendments has been proposed and is scheduled to have its second hearing in the State Duma later in 2013. As currently proposed, these amendments would significantly revise aspects of Russian law related to the status of legal entities. Most importantly, the amendments, as currently proposed, would:

- create a new classification of business entities, so that all business entities would be categorized as either public joint-stock companies or private entities, and closed joint stock companies, which are a common legal form in Russia, would no longer exist;
- introduce a new management structure for all Russian public joint-stock companies. Specifically, the amendments propose to replace the existing board of directors structure of a joint stock company with a supervisory board exercising control powers. A person appointed as the "sole executive body" (e.g., the general director or president) and members of a "collegial executive body" (e.g., a management board that operates the company) may not also serve on the supervisory board; and
- expand the liability of the management bodies and persons who may determine a business entity's conduct.

In addition to the second set of amendments, the State Duma is currently considering a third and fourth set of amendments to the Russian Civil Code, which may revise the regulations relating to, among other things, real and movable property, securities and transactions. As of the date of this prospectus, the timing of the enactment of these second and subsequent amendments, the scope and nature of these amendments and their potential interpretation by state authorities (including the courts), along with their impact on our activities and corporate governance, are unknown.

Russia's new regulatory requirements for disclosure of information on depositary receipt holders, once in force, may complicate the exercise of rights of ADR holders to vote the underlying ordinary shares at LUKOIL's shareholder meetings, which could, in turn, impede our ability to implement important business decisions.

In December 2011, a new Federal Law No. 414-FZ "On Central Depositary" was enacted simultaneously with the enactment of certain related amendments to the Securities Market Law (the Amendments to the Securities Market legislation). The Amendments to the Securities Market legislation, among other things, instituted a central depositary and made sweeping changes to how Russian issuers with depositary programmes, such as LUKOIL, record shares represented by depositary receipts, such as our American Depositary Receipts (ADRs). It is currently expected that the new system of recording shares represented by depositary receipts will become effective by November 2013.

The Amendments to the Securities Market legislation impose disclosure and reporting requirements on depositary banks, which open "depo" accounts of depositary programmes, with respect to depositary receipts "owners" and "persons which may exercise rights" attributed to depositary receipts (the scope of these terms, as used in the Amendments to the Securities Market legislation, are not entirely clear) as a condition to exercising voting rights in respect of the ordinary shares underlying the depositary receipts, such as our ADRs. As a result, after our depositary bank (The Bank of New York Mellon or BNYM)

opens a ‘‘depo account’’, it may vote the ordinary shares underlying the ADRs at a general shareholders’ meeting only on instructions from ADR owners or from other persons which may exercise rights attributed to the ADRs for which information has been provided to LUKOIL (including the corresponding number of the underlying ordinary shares).

Currently, pending the adoption of relevant regulations by the Federal Service for Financial Markets (FSFM), it is not clear whether the term depositary receipt ‘‘owner’’ means a holder registered on the records of BNYM, a securities intermediary or a beneficial owner of an ADR for the purposes of the Amendments to the Securities Market legislation. The term ‘‘persons which may exercise rights’’ attributed to depositary receipts is also unclear. As a result, the scope of the above reporting obligations remains uncertain. If BNYM, LUKOIL’s shareholders or their respective securities intermediaries, for whatever reason, were unable to comply with the requested disclosure requirements, BNYM could lose its right to vote the underlying shares on behalf of depositary receipt owners at LUKOIL’s shareholder meetings. Furthermore, FSFM’s informational letter dated 25 December 2012 clarified that the disclosure and reporting requirements should not apply until the relevant ‘‘depo’’ accounts of the depositary programmes are opened and the underlying shares are transferred to these accounts.

As of 31 December 2012, LUKOIL’s ADR programme accounted for approximately 66% of its total outstanding ordinary shares. In order for LUKOIL’s shareholder meetings to reach a quorum, shareholders representing over 50% of the ordinary shares must participate at the meeting (either directly or by proxy). If the ordinary shares underlying the ADRs were unable to vote at LUKOIL’s shareholder meetings, LUKOIL would be unable to reach a quorum at any such meeting and ultimately would be unable to conduct any business at its shareholder meetings.

In addition, the Amendments to the Securities Market legislation require the depositary bank to make all reasonable efforts to provide information on depositary receipt ‘‘owners’’ and other ‘‘persons which may exercise rights’’ attributed to depositary receipts to, among others, the Russian issuer, arbitration courts, the FSFM and governmental investigative authorities upon their request. The FSFM is entitled to demand the depositary bank to cure any breach of such disclosure requirements, and if the depositary bank fails to cure, the FSFM may suspend or limit some or all operations with depo accounts of a depositary receipt program for up to six months.

To the extent that the Amendments to the Securities Market legislation and the pending regulations by the FSFM may hinder or restrict LUKOIL’s ADR holders from voting at LUKOIL’s shareholder meetings, it would likely have a material adverse effect on our business, financial condition and results of operations and the value of the notes.

The Russian legal system and Russian law are still at a development stage and may create an uncertain environment for investment and business activity.

Russia is still developing the legal framework required by a market economy. Many fundamental Russian laws, including the Constitution, the Civil Code, the Securities Market Law and other federal laws, as well as regulations issued by the Russian Government and other executive bodies, were adopted in the first ten years following the dissolution of the Soviet Union. Since then the economic environment has significantly changed and new laws and regulations may be required to accommodate the current economic environment and increased international cooperation. See ‘‘—*The implementation of certain amendments to the Russian Civil Code may create an uncertain environment for business activities and investments*’’ for more information on the reform of the civil legislation. 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. Among the risks of the current Russian legal system are:

- limited judicial and administrative guidance on interpreting Russian legislation;
- gaps in the regulatory structure due to delay or absence of implementing legislation;
- uncertainties in interpretation of Russian legislation and corporate law generally by Russian courts;
- difficulties in enforcing court judgments in practice; and
- 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.

In addition, during the past several years, many laws and regulations have been adopted to better comply with international practices. In particular, recent amendments to the Russian Tax Code on transfer

pricing were drafted, subject to certain differences, in accordance with the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations. See "*—The Russian tax system imposes substantial burdens on us, is not fully developed and is subject to frequent change and significant uncertainty*" for more information on new transfer pricing regulations.

The laws and regulations mentioned above, as well as other recent legislation and the concepts proposed by such legislation, are new and unfamiliar to the Russian legal system, which may significantly hinder their application. The recent nature of much of Russian legislation, the lack of consensus about their scope, content and application, as well as contradictions to the previously adopted legislation, may result in ambiguities, inconsistencies and uncertainties, 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 notes 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 recent accession of Russia to the WTO may lead to changes in Russia's business and legal environment.

On 16 December 2011, Russia signed the protocol of accession to the World Trade Organisation (WTO). The protocol was ratified on 21 July 2012 and on 22 August 2012, Russia became a member of the WTO. Russian membership in the WTO may lead to significant changes in Russian legislation, including (among others) regulation of foreign investments in Russian companies, more stringent anti-monopoly laws and/or changes to Russia's taxation system and customs regulations. Further, the implementation by Russia of WTO rules may lead to increased competition in the markets in which we operate. It is unclear if and when these legislative developments may take place. We cannot assure you that any such new legislation would not have a material adverse effect on our business, financial condition and results of operations.

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 remains largely untested. The court system is generally understaffed. Under Russian legislation, judicial decisions have no binding effect on subsequent decisions (except for resolutions of the Plenumm or the Presidium of the Higher Arbitration Court in certain cases) and are not recognised as a source of law. 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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

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 and oversights in documentation and business and regulated activities as pretexts for court claims and other demands to invalidate such activities or to void transactions, often for political purposes. 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, as amended (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 capital 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 25% or more 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. Still, foreign-state investors, international organizations or entities controlled by them must apply for prior approval of a governmental commission when acquiring the right to directly or indirectly dispose of more than 5% of the total number of votes attaching to the voting shares (interests) in the charter capital of an entity having strategic importance for ensuring defence and security of the state and carrying out subsoil exploration or production at a subsoil area of federal significance. The above-mentioned restrictions 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 notes and LUKOIL's ability to meet its obligations under the guarantees.

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. The 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 Russian

Government has in the past and is considering further restructuring of certain sectors of the economy that use the physical infrastructure, which may result in increased charges and tariffs. A prolonged or major disruption in our normal business activity due to a deterioration of Russia's infrastructure, especially as it relates to transportation, could have a material adverse effect on our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

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. In January 2012, the Group raised the salaries of its employees by 6.1% on average in order to keep salaries in pace with inflation. To the extent that salaries in Russia increase rapidly, 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 Russian and international press have reported high levels of crime and 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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

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

Increased unemployment resulting from weak economic conditions, the failure of businesses to pay full salaries on a regular basis, the failure of salaries and benefits generally to keep pace with increasing cost of living and high levels of crime and corruption have led in the past, and could lead in the future, to labour and social unrest in Russia and the other countries in which we operate. Labour and social unrest may have political, social and economic consequences, such as increased support for further political reforms, increased nationalism (with restrictions on foreign involvement) 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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

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. 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 Bank of Russia and various professional self-regulatory organisations. The regulations of these various authorities are not always coordinated and may be contradictory. In addition, Russian corporate and securities rules and regulations can change rapidly, which may adversely affect our 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 materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

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 2012, 2011 and 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. See "*Business—Refining, Marketing and Distribution—Refined Products Sales—Domestic Refined Products Sales*" for more information on government-directed deliveries.

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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

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. However, there can be no assurance that export quotas and/or an export licensing regime will not be introduced in the future. In 2012, we exported 41.4% of the crude oil that we produced in Russia and 89% of the refined products that we produced in Russia.

Accordingly, any restriction on our ability to export our products from Russia could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

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 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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

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, among others:

- 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 (adoption of a resolution at a general shareholders' meeting that may serve as a basis for an amendment of our Charter) 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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

Some transactions between us and interested parties or affiliated companies require the approval of disinterested directors or shareholders. If such transactions are not approved in due course, they could be challenged by our shareholders and invalidated by the court.

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 a collegial executive body of a company, the chief executive officer of the company, the managing company or a manager 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;
- is 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

- holds a position with 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.

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. 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 by shareholders. Furthermore, while we follow all the relevant procedures, we may not always have complete information on who our interested parties are at any moment in time, as we rely on obtaining information from persons, including individuals, who we cannot control due to the fact that the control criteria do not apply to them and also because they themselves may not always have complete information about certain circumstances. Therefore, there is a risk that we could enter into an interested party transaction without our knowledge and without following of the special procedures provided for by Russian law. If an interested party transaction were conducted without the required corporate approvals, one of our shareholders could challenge such transactions. Any such challenge could result in the invalidation (if there are circumstances provided for by the law) of transactions that are important to our business, which could materially adversely affect our business, financial condition and results of operations and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

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 notes 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 Noteholders 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 could have a material adverse effect on the value of the notes.

In addition, under Russian bankruptcy law, in case of LUKOIL's bankruptcy, its obligations as guarantor of the notes 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 legislative framework may materially adversely affect the value of the notes.

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 in connection with its formation or 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 of the end of the financial year following 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 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 may have negative net assets. 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 and, therefore, the Issuer's ability to meet its obligations under the notes and LUKOIL's ability to meet its obligations under the guarantees.

Risks Relating to the Offering and the Notes

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

The notes 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 notes 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 notes. Even if a secondary market for the notes 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 notes in any secondary market could be substantial and the value of the notes 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 notes. There can be no assurance that the market for the notes will not be subject to similar disruptions. Any such disruptions may have an adverse effect on holders of the notes.

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

Except in limited circumstances, the notes will be issued only in global form with interests therein held through the facilities of Euroclear, Clearstream, Luxembourg and/or DTC. Ownership of beneficial interests in the notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by Euroclear, Clearstream, Luxembourg and/or DTC 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 notes. Because Euroclear, Clearstream, Luxembourg and/or DTC 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, Clearstream, Luxembourg and/or DTC systems may be impaired.

The notes are subject to restrictions on transfer.

The notes are being offered and sold in the United States in reliance on Rule 144A (the Rule 144A Offering) to purchasers who are QIBs and also QPs. The notes also may be offered and sold outside the United States (the Regulation S Offering) in reliance on Regulation S. Each purchaser of notes pursuant to the Rule 144A Offering will be deemed to have represented to the Issuer that it is a QIB and a QP. Each purchaser of the notes pursuant to the Regulation S Offering will be deemed to have represented to the Issuer that it is not a U.S. person within the meaning of Regulation S and is not acquiring notes for the account or benefit of any U.S. person. As a result of the foregoing, the notes are subject to certain restrictions on transfer, which may adversely affect the liquidity of the notes. See "*Transfer Restrictions*".

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

The Issuer has the option to redeem the notes prior to their scheduled maturity dates in certain circumstances as described in Condition 7 of the Terms and Conditions of the Notes. Even if the Issuer does not exercise its option to redeem the notes, its ability to do so may adversely affect the value of the notes.

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

We have agreed in Condition 4 of the Terms and Conditions of the Notes not to, and to procure that no Subsidiary (as defined in the Terms and Conditions of the Notes) will, create or permit to subsist any Security Interest (as defined in the Terms and Conditions of the Notes) other than a Permitted Security Interest (as defined in the Terms and Conditions of the Notes) 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 Notes) any payment in respect of or relating to any Relevant Indebtedness without procuring that the notes 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 notes, 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 Notes), without any obligation to afford any equal and ratable security to holders of the notes. 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 Notes) 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 notes or the guarantees, as the case may be, which may adversely affect the value of your investment in the notes 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 notes.

The Issuer is an indirect wholly-owned subsidiary of LUKOIL and will lend the net proceeds from the issue of the notes to LUKOIL. The Issuer has obligations under the US$500,000,000 6.356% notes due in 2017 and the US$500,000,000 6.656% notes due in 2022, which were both issued in June 2007, the US$900,000,000 6.375% notes due in 2014, the US$600,000,000 7.250% notes due in 2019, which were both issued in November 2009, the US$1,000,000,000 6.125% notes due 2020, which were issued in November 2010, and the US$1,500,000,000 2.625% convertible bonds due to 2015, which were issued in December 2010. See "*Capitalisation*". The Issuer has insufficient net assets, other than amounts due to it from LUKOIL in respect of any intercompany loans, to meet its obligations to pay interest and other amounts payable in respect of the notes. While LUKOIL has guaranteed the Issuer's obligations under the notes, LUKOIL is dependent in large part on its subsidiaries' operations to fund payments on its outstanding obligations.

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

LUKOIL will guarantee the notes, but the notes 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 guarantees of the notes. The guarantees are 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 notes.

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

The terms of the notes 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 notes in the event of many types of highly leveraged transactions.

You may face difficulties in enforcing your rights under LUKOIL's guarantees or the notes.

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 guarantees issued in connection with the notes may be subject to numerous legal defences, some of which could be based upon the fact that there may be no recognition and enforcement of foreign court judgments in Russia. See "*Limitation on Enforceability of Civil Liabilities*".

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

Generally, no withholding tax obligations should arise upon making payments under the guarantees by the Guarantor to Non-resident Noteholders–Legal Entities (as defined in section "*Taxation—The Russian Federation*") by virtue of the exemption envisaged by Federal Law No. 97-FZ dated 29 June 2012 "On introduction of amendments in part one and two of the Tax Code of the Russian Federation and article 26 of the Federal Law "On banks and banking activity" (Law 97-FZ). Law 97-FZ provides that Russian companies which make payments in favour of foreign legal entities upon the execution of a guarantee or suretyship should be released from the obligation to withhold tax from such payments provided that certain conditions are met.

LUKOIL believes that it should be possible to satisfy conditions established by Law 97-FZ and obtain a release from the obligation to withhold tax from payments made under the guarantees.

The release from the obligation to withhold tax from interest and other payments described herein will apply in respect of issued bonds (such as the notes) that are placed before 1 January 2014.

Further, there can be no assurance that the Russian withholding tax would not be imposed on the payments made under the guarantees to Non-resident Noteholders–Legal Entities not residing for tax purposes in countries which have concluded a double tax treaty with Russia. In such case there is a risk that Russian withholding tax would be imposed on the full amount of the guarantee payment, including the principal amount of the notes. Since the above could only be relevant in case of payments made in favour of Non-resident Noteholders–Legal Entities residing for tax purposes in countries which do not have a double tax treaty with Russia, reduction or elimination of the 20%. Russian withholding tax on the basis of the double tax treaties under such circumstances should not be possible.

Importantly, Law 97-FZ does not provide an exemption to the foreign interest income recipients from Russian withholding tax, although currently there is no requirement in the Russian tax legislation for foreign income recipients which are legal entities to self-assess and pay the tax to the Russian tax authorities. The Russian Ministry of Finance has acknowledged in an information letter published on its website that the release from the obligation to act as a tax agent means, in effect, that tax at source within Russia should not arise in connection with Eurobonds, since there is neither a mechanism nor obligation for a non-resident to independently calculate and pay such tax. There can be no assurance that such rules will not be introduced in the future or that the Russian tax authorities would not make attempts to collect the tax from the foreign income recipients including Non-resident Noteholders–Legal Entities and/or the Trustee.

Payments under the guarantees to a Non-resident Noteholder–Individual (as defined in section "*Taxation—The Russian Federation*") made by the Guarantor may be subject to Russian withholding tax. In this case, depending on how these payments would be effected, either the full amount of payment or a part of such payments (covering interest on the notes) would be subject to the 30% tax which may be withheld at the source or paid 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.

Given the uncertainties regarding the form and procedures for providing the documentary support, it is unlikely that Non-resident Noteholders–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. See "*Taxation—The Russian Federation*".

If any payment required under the guarantees becomes subject to Russian withholding tax or deduction for any taxes, duties, assessments or governmental charges of any nature (as a result of which the Guarantor would have to reduce payments made under the guarantees by the withheld amount), we will be obliged (subject to certain conditions) to increase the amount payable under the guarantees so as to result in the receipt by the Trustee acting on behalf of the Noteholders of such amounts as would have been received by it if no such withholding or deduction had been (except in circumstances specified in Condition 7(b) of the Terms and Conditions of the Notes (*Redemption for tax reasons*). As a result, we could incur expenses well in excess of the amount due to the Noteholders. We cannot be certain that we

would have sufficient funds to make any payment required under the guarantees or 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.

There is some uncertainty under Russian law as to the enforceability of such gross-up provisions. If the Guarantor were to fail to make tax gross-up payments in accordance with the terms of the guarantees and the related provisions under the guarantees were deemed to be unenforceable, the net amount of the payments made by the Guarantor to the Trustee acting on behalf of the Noteholders could be insufficient to make payment in full under the notes.

Withholding of tax on disposals by individuals of the notes in Russia may reduce their value.

Where income resulting from sale, redemption or disposal of the notes are deemed to be received from a source within Russia by a Non-resident Noteholder–Individual, a Russian personal income tax at a rate of 30% (or such other rate as may be in force at the time of payment), will apply to the gross proceeds from such disposal of the notes less any available duly documented cost deductions (including the original purchase price of the Notes and other documented expenses related to the acquisition, holding and sale or other disposal of the notes), provided that the documentation supporting cost deductions is available to the person obliging to calculate and withhold Russian personal income tax in a timely manner. Although technically Russian personal tax due may be reduced or eliminated under an applicable double tax treaty entered into between Russia and the country of tax residency of a particular Noteholder subject to timely compliance by that Noteholder with the treaty clearance formalities, in practice, individuals may 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 that were excessively withheld in relation to such income can be extremely difficult, if not impossible.

The imposition or possibility of imposition of this withholding tax could adversely affect the value of the notes. See ''*Taxation—The Russian Federation*''.

Other Risks

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

We have sourced certain information contained in this prospectus from third parties, including private companies and Russian governmental 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 this prospectus is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

CAPITALISATION

The following table sets forth our consolidated capitalisation and short-term debt as of 31 December 2012 based on data extracted from our audited consolidated financial information as of 31 December 2012. The net proceeds of the offering will be used as described under "*Use of Proceeds*". There have been no material changes in our capitalisation since 31 December 2012, except as described in "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources*", "*Business—History*" and "*Business—Recent Developments*". For further information regarding our financial condition, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and our audited consolidated financial statements and notes included elsewhere in this prospectus.

	As of 31 December 2012
	(millions of U.S. dollars)
Short-term debt	
Short-term borrowings	126
Current portion of long-term debt	532
Total short-term debt	**658**
Long-term debt	
Long-term loans and borrowings(1)	1,287
6.375% non-convertible U.S. dollar bonds, maturing 2014	898
2.625% convertible U.S. dollar bonds, maturing 2015	1,436
6.356% non-convertible U.S. dollar bonds, maturing 2017	500
7.250% non-convertible U.S. dollar bonds, maturing 2019	596
6.125% non-convertible U.S. dollar bonds, maturing 2020	998
6.656% non-convertible U.S. dollar bonds, maturing 2022	500
7.40% Russian ruble bonds, maturing 2013	198
Capital lease obligations	82
Total long-term debt	**6,495**
Current portion of long-term debt	(532)
Total non-current portion of long-term debt	**5,963**
Total debt(2)	**6,621**
Stockholders' equity of OAO LUKOIL	
Common stock	15
Treasury stock, at cost	(5,189)
Equity-linked notes	(2,500)
Additional paid-in capital	4,734
Retained earnings	76,216
Accumulated other comprehensive loss	(69)
Total stockholders' equity of OAO LUKOIL	**73,207**
Total capitalisation(3)	**79,702**

(1) Including loans from banks in the amount of $885 million.

(2) Comprising short-term debt and non-current portion of long-term debt.

(3) Comprising total long-term debt and total stockholders' equity.

Of the total debt of the Group of $6,621 million, as of 31 December 2012, $5,667 million was guaranteed by LUKOIL, $114 million was secured (with no LUKOIL guarantee) and $840 million was neither secured nor guaranteed.

SELECTED CONSOLIDATED FINANCIAL AND OTHER INFORMATION

The selected consolidated financial data set out below present a summary of our historical consolidated financial information as of 31 December 2012, 2011 and 2010 and for the years then ended and are derived from our annual consolidated financial statements and notes, which have been prepared in accordance with U.S. GAAP and audited by KPMG, and our unaudited supplementary oil and gas information thereto. The selected financial data set forth below should be read in conjunction with our consolidated financial statements and notes and unaudited supplementary oil and gas information thereto included elsewhere in this prospectus and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

Consolidated Statement of Comprehensive Income

	Year ended 31 December		
	2012	**2011**	**2010**
	(millions of U.S. dollars, except per share amounts)		
Revenues			
Sales (including excise and export tariffs)	139,171	133,650	104,956
Costs and other deductions			
Operating expenses	(9,359)	(9,055)	(8,298)
Cost of purchased crude oil, gas and products	(64,148)	(59,694)	(43,250)
Transportation expenses	(6,171)	(6,121)	(5,608)
Selling, general and administrative expenses	(3,755)	(3,822)	(3,558)
Depreciation, depletion and amortisation	(4,832)	(4,473)	(4,154)
Taxes other than income taxes	(13,666)	(12,918)	(8,978)
Excise and export tariffs	(22,836)	(22,217)	(18,878)
Exploration expense	(364)	(532)	(336)
Gain (loss) on disposals and impairments of assets	30	(1,663)	(363)
Income from operating activities	**14,070**	**13,155**	**11,533**
Interest expense	(538)	(694)	(712)
Interest and dividend income	257	211	174
Equity share in income of affiliates	518	690	472
Currency translation loss	(512)	(301)	(122)
Other non-operating (expense) income	(72)	58	125
Income before income taxes	**13,723**	**13,119**	**11,470**
Current income taxes	(2,738)	(2,678)	(2,104)
Deferred income taxes	(60)	(615)	(247)
Total income tax expense	**(2,798)**	**(3,293)**	(2,351)
Net income	**10,925**	**9,826**	**9,119**
Net loss (income) attributable to non-controlling interests	79	531	(113)
Net income attributable to OAO LUKOIL	**11,004**	**10,357**	**9,006**
Earnings per share of common stock attributable to OAO LUKOIL (in U.S. dollars):			
Basic	14.47	13.30	10.95
Diluted	14.17	13.04	10.94
Other comprehensive income, net of tax:			
Defined benefit pension plan:			
Prior service cost arising during the period	–	22	12
Actuarial loss	(15)	(9)	(4)
Other comprehensive (loss) income	**(15)**	**13**	**8**
Comprehensive income	**10,910**	**9,839**	**9,127**
Comprehensive loss (income) attributable to non-controlling interests	79	531	(113)
Comprehensive income attributable to OAO LUKOIL	**10,989**	**10,370**	**9,014**

Consolidated Balance Sheet Data

	As of 31 December		
	2012	**2011**	**2010**
	(millions of U.S. dollars)		
Assets			
Current assets			
Cash and cash equivalents	2,914	2,753	2,368
Short-term investments	286	157	168
Accounts receivable, net	8,667	8,921	8,219
Inventories	8,098	7,533	6,231
Prepaid taxes and other expenses	3,541	3,219	2,934
Other current assets	767	946	697
Total current assets	**24,273**	**23,529**	**20,617**
Investments	4,124	5,952	5,637
Property, plant and equipment	66,883	56,803	54,629
Deferred income tax assets	569	591	676
Goodwill and other intangible assets	1,964	1,344	1,446
Other non-current assets	1,148	2,973	1,012
Total assets	**98,961**	**91,192**	**84,017**
Liabilities and Equity			
Current liabilities			
Accounts payable	7,263	5,995	5,607
Short-term borrowings and current portion of long-term debt	658	1,792	2,125
Taxes payable	2,802	2,271	2,099
Other current liabilities	1,730	1,050	944
Total current liabilities	**12,453**	**11,108**	**10,775**
Long-term debt	5,963	7,300	9,069
Deferred income tax liabilities	3,651	2,790	2,417
Asset retirement obligations	2,195	2,120	1,788
Other long-term liabilities	511	408	360
Total liabilities	**24,773**	**23,726**	**24,409**
Equity			
OAO LUKOIL stockholders' equity			
Common stock	15	15	15
Treasure stock, at cost	(5,189)	(4,081)	(3,683)
Equity-linked notes	(2,500)	(980)	(980)
Additional paid-in capital	4,734	4,798	4,700
Retained earnings	76,216	67,940	59,212
Accumulated other comprehensive loss	(69)	(54)	(67)
Total OAO LUKOIL stockholders' equity	**73,207**	**67,638**	**59,197**
Non-controlling interests	981	(172)	411
Total equity	**74,188**	**67,466**	**59,608**
Total liabilities and equity	**98,961**	**91,192**	**84,017**

Consolidated Statements of Cash Flows

	Year ended 31 December		
	2012	**2011**	**2010**
	(millions of U.S. dollars)		
Cash flows from operating activities			
Net income attributable to OAO LUKOIL	**11,004**	**10,357**	**9,006**
Adjustments for non-cash items:			
Depreciation, depletion and amortisation	4,832	4,473	4,154
Equity share in income of affiliates, net of dividends received	102	185	316
Dry hole write-offs	127	417	225
(Gain) loss on disposals and impairments of assets	(30)	1,663	363
Deferred income taxes	60	615	247
Non-cash currency translation loss (gain)	293	(214)	(44)
Non-cash investing activities	(18)	(6)	(67)
All other items – net	153	(447)	167
Changes in operating assets and liabilities:			
Trade accounts receivable	641	(758)	(2,285)
Inventories	(126)	(1,420)	(813)
Accounts payable	1,001	885	1,508
Taxes payable	468	177	274
Other current assets and liabilities	490	(413)	490
Net cash provided by operating activities	**18,997**	**15,514**	**13,541**
Cash flows from investing activities			
Acquisition of licenses	(921)	(25)	(15)
Capital expenditures	(11,647)	(8,249)	(6,596)
Proceeds from sale of property, plant and equipment	412	156	128
Purchases of investments	(453)	(101)	(137)
Proceeds from sale of investments	252	79	126
Sale of subsidiaries and equity method affiliates, net of cash disposed	27	227	130
Acquisitions of subsidiaries and equity method affiliates, net of cash acquired	(886)	(1,100)	(932)
Net cash used in investing activities	**(13,216)**	**(9,013)**	**(7,296)**
Cash flows from financing activities			
Net movements of short-term borrowings	(32)	(633)	(213)
Proceeds from issuance of long-term debt	597	1	2,515
Principal repayments of long-term debt	(1,831)	(1,372)	(2,267)
Dividends paid on OAO LUKOIL common stock	(2,800)	(1,714)	(1,471)
Dividends paid to non-controlling interest stockholders	(113)	(116)	(85)
Financing received from non-controlling interest stockholders	2	3	18
Purchase of OAO LUKOIL stock	(128)	(398)	(3,664)
Sale of OAO LUKOIL stock	–	–	193
Purchase of equity-linked notes	(740)	(1,760)	(980)
Purchases of non-controlling interest	(635)	(34)	(192)
Net cash used in financing activities	**(5,680)**	**(6,023)**	**(6,146)**
Effect of exchange rate changes on cash and cash equivalents	60	(93)	(5)
Net increase in cash and cash equivalents	**161**	**385**	**94**
Cash and cash equivalents at beginning of year	2,753	2,368	2,274
Cash and cash equivalents at end of year	**2,914**	**2,753**	**2,368**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our U.S. GAAP audited annual consolidated financial statements as of 31 December 2012 and 2011 and for each of the years in the three-year period ended 31 December 2012 and the related notes and supplemental oil and gas disclosure included elsewhere in this prospectus. This discussion contains forward looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward looking statements as a result of numerous factors, including the risks discussed in the section entitled ''Risk Factors'' and elsewhere in this prospectus.

Overview

We are one of the largest publicly traded oil and gas companies in the world in terms of hydrocarbon reserves and we are the second largest producer of crude oil in Russia. Our primary activities are oil exploration, production, refining, marketing and distribution. LUKOIL is the ultimate parent entity of a vertically integrated group of companies.

OAO LUKOIL was established in accordance with Presidential Decree No. 403, issued on 17 November 1992. Under this decree, on 5 April 1993, the Russian Government transferred to the Group 51% of the voting shares of 15 enterprises. Under Government Resolution No. 861, issued on 1 September 1995, a further nine enterprises were transferred to the Group during 1995. Since 1995, we have carried out a share exchange program to increase our shareholding in each of 24 founding subsidiaries to 100%. We have expanded substantially through organic growth, consolidation of interests, acquisitions of new companies and establishment of new businesses. We are now a global energy company operating in 38 countries on four continents.

As of 31 December 2012, as audited by Miller and Lents, our proved crude oil reserves were approximately 13,381 mmbls (1,826 million tonnes) and our proved gas reserves were 23,487 bcf (3,915 mmboe), for an aggregate of 17,296 mmboe of proved hydrocarbon reserves. As of the same date, our probable crude oil reserves were 5,933 mmbls (809 million tonnes) and our probable gas reserves were 10,738 bcf (1,790 mmboe), for an aggregate of 7,723 mmboe of probable hydrocarbon reserves. For more information about these estimates, see ''*Presentation of Reserves and Resources*''.

Our total revenues were $139,171 million in 2012, compared to $133,650 million in 2011 and $104,956 million in 2010. Our net income in 2012 amounted to $11,004 million, which is $647 million, or 6.2%, more than in the previous year. In 2011, our net income was $10,357 million, which is $1,351 million, or 15.0%, more than in 2010. The increase in our net income was influenced mainly by export tariffs and mineral extraction tax rates and by hydrocarbon prices. Our net income in 2011 was materially affected by our impairment loss in OOO Narianmarneftegaz (NMNG) in the amount of $955 million (net of tax and non-controlling interest).

Key Financial and Operational Results

	Year ended 31 December				
	2012	**% Change**	**2011**	**% Change**	**2010**
Sales (including excise and export tariffs) *(millions of U.S. dollars)*	139,171	4.1	133,650	27.3	104,956
Net income attributable to OAO LUKOIL *(millions of U.S. dollars)*	11,004	6.2	10,357	15.0	9,006
EBITDA[1] *(millions of U.S. dollars)*	18,915	1.7	18,606	15.9	16,049
Taxes other than income taxes, excise and export tariffs *(millions of U.S. dollars)*	(36,502)	3.9	(35,135)	26.1	(27,856)
Earnings per share of common stock attributable to OAO LUKOIL (*U.S. dollars*):					
Basic	14.47	8.8	13.30	21.4	10.95
Diluted	14.17	8.7	13.04	19.1	10.94
Hydrocarbon production by the Group, including our share in equity affiliates *(mboe)*	794,332	0.5	790,674	(4.5)	828,098
Daily hydrocarbon production by the Group, including our share in equity affiliates *(mboe per day)* .	2,170	0.2	2,166	(4.5)	2,269
Crude oil and natural gas liquids produced by the Group, including our share in equity affiliates *(mbls)*	677,023	(1.1)	684,522	(5.1)	721,560
Gas available for sale produced by the Group, including our share in equity affiliates *(mmcm)*.............	19,934	10.5	18,038	(0.4)	18,103
Refined products produced by the Group, including our share in equity affiliates *(thousand tonnes)*	63,773	1.8	62,667	(1.7)	63,770
The Group's hydrocarbon proved reserves, including our share in equity affiliates *(mmboe)*............	17,296	0.2	17,269	0.1	17,255

(1) Please refer to "*Presentation of Financial and Other Information—Non-U.S. GAAP Financial Measures*" on page v of this prospectus for more detail on our use of EBITDA as a financial measure.

Segment Information

Our operations are divided into four main business segments:

- **Exploration and Production** – which includes our exploration, development and production operations relating to crude oil and natural gas. These activities are primarily located within Russia, with additional activities in Azerbaijan, Kazakhstan, Uzbekistan, the Middle East, South America, Northern and Western Africa and South-East Asia.
- **Refining, Marketing and Distribution** – which includes refining and transport operations, marketing and trading of crude oil, natural gas and refined products.
- **Chemicals** – which includes processing and trading of petrochemical products.
- **Power Generation** – which includes generation, transportation and sales of electricity, heat and related services.

Each of our four main segments is dependent on the others, with a portion of the revenues of one segment being a part of the costs of the others. In particular, our Refining, Marketing and Distribution

segment purchases crude oil from our Exploration and Production segment. As a result of certain factors described in "—*Main Factors Affecting Our Results of Operations—Domestic Crude Oil and Refined Products Price*s" below, benchmark crude oil market prices in Russia cannot be determined with certainty. Therefore, the prices set for inter-segment purchases of crude oil reflect a combination of market factors, primarily international crude oil market prices, transportation costs, regional market conditions, the cost of refining crude oil and other factors. Accordingly, an analysis of any of these segments on a stand-alone basis could give a misleading impression of those segments' underlying financial position and results of operations. For this reason, we do not analyse any of our main segments separately in the discussion that follows. For a presentation of separate financial data for each of our main segments, see Note 22 "*Segment information*" to our consolidated financial statements for the year ended 31 December 2012, which are included elsewhere in this prospectus.

Recent Developments and Outlook

Exploration and Production

On 1 April 2013, we entered into a purchase agreement to acquire 100% of Samara-Nafta from Hess Corp. and Simon Kukes, who holds a 10% stake in the company. Samara-Nafta is an oil producer operating in the Samara and Ulyanovsk regions of Russia. It currently produces 2.5 million tonnes of oil a year and has C1 and C2 category oil reserves estimated at 85 million tonnes. Samara-Nafta also owns rights to explore and develop more than 60 fields within 23 license areas. Total purchase price for the 100% interest is $2.05 billion. The sale is conditioned on approval by the Russian Federal Antimonopoly Service.

In December 2012, we won an auction for the rights to the Imilor group of fields, which includes the Imilorskoye, West Imilorskoye and Istochnoye fields. We paid an aggregate of RUB 50.8 billion ($1.67 billion) for these rights (50% of which was paid in December 2012 and the remainder in January 2013). The site is located in Western Siberia and has oil in place and recoverable oil reserves totalling, respectively, 6,270.8 mmbls (855.5 million tonnes) and 1,419.8 mmbls (193.7 million tonnes) in the C1 and C2 categories combined. We currently expect production to commence at the Imilorskoye oil field in 2015.

Oil Refining

In March 2013, we entered into an agreement with VETEK Group to sell our 99.58% interest in the Odessa refinery. We expect the sale to close by June 2013.

In February 2013, we began construction at our Volgograd refinery of a complex for the deep refining of vacuum gas oil, which is expected to allow the refinery to increase Euro-5 diesel fuel output by 13.2 mmbls (1.8 million tonnes) per year.

Power Generation

In January 2013, LUKERG Renew (a joint venture between LUKOIL-Ecoenergo and the Italian ERG Renew) acquired a 100% interest in the Romanian company Land Power SRL, which holds a license to build a wind power station, and the rights to a land plot with an area of approximately five sq. km located in the southeastern part of Romania. LUKERG Renew intends to begin construction in early 2013 of a wind power station consisting of 42 wind turbines with a total capacity of approximately 84 MW. Commercial operation is expected to commence in the first half of 2014. The wind power station is expected to generate more than 200,000 MWh per year. LUKERG Renew was founded in May 2011 to implement renewable energy projects. In 2012, the joint venture purchased a wind power station near Dobrich, Bulgaria with a rated capacity of 40 MW.

Changes in the Group Structure

In January 2012, the Group was offered an option to purchase a 20% stake in the joint venture operating the ISAB from the Italian company, ERG S.p.A. (ERG). The transaction was approved by European regulatory authorities and was completed in September 2012. The aggregate purchase price for the 20% interest amounted to €494 million (approximately $621 million). The Group's ownership in ISAB increased from 60% to 80% and the Group obtained control over the joint venture. This transaction was a partial exercise of ERG's option to sell in full its stake in the joint venture established in 2008. We originally acquired a 49% stake in the joint venture in December 2008 and in April 2011 we acquired an additional 11% stake in the joint venture for €241 million (approximately $342 million) from ERG.

In August 2012, we acquired ConocoPhillips' 30% joint venture interest in NMNG and certain related assets for $604 million. Upon consummation of this acquisition, NMNG became a wholly-owned subsidiary of the Group.

In January 2010, we signed an agreement to develop the West Qurna-2 field located in the south of Iraq. Originally, the parties to the agreement were the Iraqi state-owned South Oil Company and a consortium formed by us, the Iraqi state-owned North Oil Company and Norway's Statoil ASA. Our share of the project was originally 56.25%. In 2012, we increased our share of the project to 75%. The West Qurna-2 field has recoverable crude oil reserves of about 12,900 mmbls (1.8 billion tonnes).

As a part of our expansion strategy in Kazakhstan, in December 2009, we acquired the remaining 46.0% interest in LUKARCO for $1.6 billion, increasing our ownership stake to 100%. LUKARCO is a holding company that owns a 5.0% share in Tengizchevroil, a joint venture developing the Tengiz and Korolevskoe fields in Kazakhstan, and a 12.5% share in Caspian Pipeline Consortium (CPC), which carries Kazakhstani and Russian oil to the Novorossiysk marine terminal. We paid $300 million of the aggregate purchase price in December 2009, $800 million in December 2010 and the remaining $500 million in December 2011.

Impairment of Assets in NMNG

In 2005, we entered into a joint venture with ConocoPhillips to develop oil fields located in Northern Timan-Pechora region of Russia. Our share of the joint venture was 70% and we ran NMNG on a 50/50 basis with ConocoPhillips. In 2008, NMNG commenced commercial production at the Yu. Khylchuyu oil field. Proved reserves of the Yu. Khylchuyu oil field were estimated to be approximately 505 mmbls (68.9 million tonnes) at the end of 2008. In 2009 and 2010, the crude oil production from the field amounted to 51.3 mmbls (7.0 million tonnes) and 50.6 mmbls (6.9 million tonnes), respectively. In 2010, production from the oil field began to decline due to certain unexpected geological reasons, resulting in a significant decrease in production in 2011 to 24.2 mmbls (3.3 million tonnes). As of 31 December 2011, crude oil reserves amounted to approximately 142.0 mmbls (19.4 million tonnes). In 2011, we recognized an impairment loss on exploration and production assets and other assets of NMNG in the amount of $1,261 million. The impact on our net income for 2011 (net of ConocoPhillip's share in the impairment loss and deferred tax assets write-off) amounted to $955 million and the impact on our EBITDA amounted to $883 million.

Resource Base

The table below summarises the net oil-equivalent proved reserves of consolidated subsidiaries and our share in equity affiliates under SEC Rule 4-10(a) of Regulation S-X (until the economic limit of commercial production is reached) that have been derived or extracted from our reserve reports audited by Miller and Lents, independent reservoir engineers, as of 31 December 2012 and 2011. See "*Presentation of Reserves and Resources*" for more information on our reserves estimates. See also "*Business—Exploration and Production*".

	Changes in 2012				
	As of 31 December 2012[1]	**Production[2]**	**Extensions, discoveries and changes in structure**	**Revision of previous estimates**	**As of 31 December 2011**
			(mmboe)		
Western Siberia	9,712	(448)	337	112	9,711
Timan-Pechora	2,468	(120)	94	(56)	2,550
Ural Region	2,217	(112)	69	91	2,169
Volga Region	1,063	(35)	104	20	974
Other in Russia	216	(15)	7	–	224
Outside Russia	1,620	(88)	92	(25)	1,641
Total proved oil and gas reserves	**17,296**	**(818)**	**703**	**142**	**17,269**
Total probable oil and gas reserves	**7,723**	–	–	–	**8,415**
Total possible oil and gas reserves	**4,272**	–	–	–	**3,939**

(1) Excluding reserves related to the Imilorskoye, West Imilorskoye and Istochnoye fields.

(2) Gas production shown before Group consumption.

Our proved reserves as of 31 December 2012 totalled 17,296 mmboe, consisting of 13,381 mmboe of crude oil and 23,487 bcf of gas, compared to proved reserves as of 31 December 2011 of 17,269 mmboe, consisting of 13,403 mmboe of crude oil and 23,196 bcf of gas.

In 2012, proved reserves grew by 703 mmboe as a result of geological exploration, production drilling and acquisitions. The growth was largely a result of the detailed field appraisal in the Northern Caspian and Komi Republic. Revision of previous estimates contributed 142 mmboe to the increase. The major factors in 2012 that contributed to the positive reinterpretation of our proved reserves were an improvement in development techniques at our existing fields, progress in the preparation and commissioning of a number of new fields and greater gas utilization.

Under SEC standards, undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless specific circumstances justify a longer period of time. We expect to transfer oil and gas reserves classified as contingent resources to the category of proved resources as their commissioning date approaches, a program to enhance volumes of gas utilization is implemented and/or new advanced technologies are applied, which would allow us to develop hard-to-recover reserves in a cost-effective manner.

Main Factors Affecting Our Results of Operations

The main factors that have affected our results of operations during the periods being analysed, and that can be expected to affect our results of operations in the future, are:

- changes in crude oil, refined products and gas prices;
- changes in U.S. dollar-ruble exchange rate and inflation;
- taxation including changes in mineral extraction tax, export customs duty and excise taxes;
- changes in tariffs of natural monopolies (for pipeline and railway transport); and
- changes in the production volumes of crude oil, gas and refined products.

Changes in Crude Oil, Refined Products and Gas Prices

The prices of crude oil and refined products internationally and in Russia have a substantial impact on our results of operations and are subject to significant fluctuations. World prices for crude oil are characterized by significant fluctuations that are determined by the global balance of supply and demand. Substantially all the crude oil that we export is through the Transneft pipeline system, which is blended with oil of other producers and is of a different quality. The resulting ''Urals blend'' is traded at a discount to Brent. During 2012, the Urals blend price fluctuated between $88.6 and $128.2 per barrel, and reached its peak on 8 March 2012. In comparison, the Urals blend price fluctuated between $93.7 and $126.7 per barrel in 2011 and reached its peak on 8 April 2011, and fluctuated between $67.6 and $94.0 per barrel in 2010 and reached its peak on 23 December 2010.

Substantially all crude oil produced in Russia is produced by vertically integrated oil companies, such as ours. As a result, most transactions are between affiliated entities within vertically integrated groups. There is no concept of a benchmark domestic market price for crude oil. 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 a background of world market prices, but with no direct reference or correlation. Moreover, crude oil market prices in Russia can be significantly lower than they might otherwise be due to seasonal oversupply and regional imbalances. At any time, significant price differences may exist between regions for similar quality crude oil as a result of the competition and economic conditions in those regions.

The dynamics of refined product prices in the international and Russian markets are determined by a number of factors, the most important among them being the level of world prices of crude oil, supply and demand for refined products, competition in the different markets and distances separating them from the refineries where the crude oil is refined into useable end products or intermediate products.

Average Crude Oil and Refined Products Prices Worldwide and in Russia

The following table shows the average crude oil and refined product prices worldwide and the average domestic wholesale prices (excluding VAT) of refined products for the years ended 31 December 2012, 2011 and 2010, respectively.

	Year ended 31 December				
	2012	% Change	2011	% Change	2010
World market	*(U.S. dollars per bbl, except %)*				
Brent crude	111.67	0.4	111.26	39.9	79.50
Urals crude (CIF Mediterranean)[1]	110.55	1.3	109.10	39.4	78.29
Urals crude (CIF Rotterdam)[1]	110.19	1.0	109.08	39.4	78.26
	(U.S. dollars per tonne, except %)				
Fuel oil 3.5% (FOB Rotterdam)	631.08	3.5	609.51	37.8	442.35
Diesel fuel (FOB Rotterdam)	980.00	2.2	958.73	39.3	688.46
High-octane gasoline (FOB Rotterdam)	1,036.14	5.3	984.12	33.9	735.24
Russian market	*(U.S. dollars per tonne, except %)*				
Fuel oil	320.29	0.4	318.99	30.1	245.27
Diesel fuel	832.71	9.5	760.53	36.5	557.36
High-octane gasoline (Regular)	813.94	(5.1)	857.70	20.1	714.26
High-octane gasoline (Premium)	869.33	(3.2)	897.81	20.8	743.17

Source: Platts (world market), InfoTEX (Russian market).

(1) We sell crude oil on foreign markets on various delivery terms. Thus, our average realised sale price of oil on international markets differs from the average prices of Urals blend on Mediterranean and Northern European markets.

As part of our business strategy, we intend to accelerate the growth of our gas production in Russia and internationally. See "*Business—Strategy—Strategic Development Programme for 2012 to 2021*". Gazprom controls access to the UGSS, is a monopoly supplier of gas in Russia and is the only exporter of gas produced in Russia. We are not able to sell our gas other than through the UGSS. The Russian Government regulates the prices for the gas Gazprom sells in Russia. While natural gas prices have risen in Russia in recent years, domestic prices continue to lag behind world levels. The regulated price has affected, and is likely to continue to affect, the pricing of the gas that we sell to Gazprom. See "*Risk Factors—Risks Related to Our Business and the Oil and Gas Industry—We face several risks in connection with the implementation of our strategy to develop our natural gas operations*".

Changes in U.S. Dollar-Ruble Exchange Rate and Inflation

A substantial part of our revenue is either denominated in U.S. dollars or is correlated to some extent with U.S. dollar crude oil prices, while most of our costs in the Russian Federation are settled in Russian rubles. Therefore, ruble inflation and movements in ruble-U.S. dollar exchange rates can significantly affect the results of our operations. In particular, the appreciation of the Russian ruble against the U.S. dollar negatively affects our margins. We currently do not comprehensively hedge our exposure to foreign currency rate changes, although we selectively hedge certain foreign currency exchange rate exposures, such as firm commitments for capital projects or local currency tax payments and dividends. See "*—Quantitative and Qualitative Disclosures about Market Risks—Foreign Currency Risk*".

Whether the ruble appreciates or depreciates in real terms is a function of the relationship between movements in the nominal exchange rate and inflation. The table below sets forth information on exchange rate movements and inflation during the period.

	For the year ended 31 December		
	2012	2011	2010
Ruble inflation (CPI) for the period (%)	6.6	6.1	8.7
Exchange rate at the end of the period (rubles/U.S. dollar)	30.37	32.20	30.48
Average exchange rate for the period (rubles/U.S. dollar)	31.09	29.39	30.37

Source: CBR, Federal State Statistics Service.

Tax Burden

We are subject to a broad range of taxes imposed at the federal, regional and local levels, and the taxes to which we are subject have had a significant effect on our results of operations. Given the significant size of our activities in Russia relative to other jurisdictions, our tax profile is largely determined by the taxes payable in Russia (based on records maintained under Russian legislation and not U.S. GAAP). In 2012,

2011 and 2010, the tax charge on our operations in Russia was approximately 88%, 88% and 85% of our total tax charge, respectively.

Apart from income taxes, the main taxes applicable to the oil industry in Russia are mineral extraction tax, excise taxes and export tariffs. In addition, we are subject to a number of other taxes in Russia, including social taxes, property tax, VAT and other local and regional taxes.

The effective rates of total taxes and tariffs (total taxes, including income taxes, taxes other than on income and excise taxes and export tariffs, divided by income before taxes and tariffs) for 2012, 2011 and 2010, respectively, were 78%, 80% and 77%. In 2012, tax expenses in Russia were approximately 53% of the domestic and export sales revenue of the Russian companies in the Group.

The measures that we use for tax planning and management strategies have been based on our understanding of tax legislation existing at the time of implementation of these measures. We are subject to audits by tax authorities on an ongoing basis, as is normal in the Russian environment, and, at times, the authorities have attempted to impose significant additional taxes on us. We believe that we have adequately met and provided for tax liabilities based on our interpretation of existing tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant. See "*Regulation of the Oil Industry in the Russian Federation—Current System of Oil and Gas-Related Taxes and Duties*" for more information on the tax regime for the production and sale of crude oil, gas and refined products in Russia. See also "*Risk Factors—Risks Relating to the Russian Federation—The Russian tax system imposes substantial burdens on us, is not fully developed and is subject to frequent change and significant uncertainty*".

The following tables set forth average enacted rates for taxes specific to the oil industry in Russia for the respective periods.

		Year ended 31 December				
		2012	**% Change**	**2011**	**% Change**	**2010**
Export tariffs on crude oil	$/tonne	404.15	(1.2)	409.19	49.6	273.55
Export tariffs on refined products						
Middle distillates (jet fuel), diesel fuel and gasoils	$/tonne	266.70	(2.8)	274.27	39.5	196.60
Light distillates						
gasoline	$/tonne	363.72	6.4	341.94	73.9	196.60
straight-run gasoline	$/tonne	363.72	9.2	333.08	69.4	196.60
Liquid fuels (fuel oil)	$/tonne	266.70	27.9	208.46	96.8	105.91
Mineral extraction tax						
Crude oil	RUB/tonne	5,065.95	13.7	4,456.54	44.9	3,075.76
Natural gas	RUB/1,000 m^3	251.00	5.9	237.00	61.2	147.00

Average tax rates for the ruble-denominated tariffs in the table above and translated into U.S. dollars at the average exchange rates for the years ended 31 December 2012, 2011 and 2010 are as follows:

		Year ended 31 December				
		2012	**% Change**	**2011**	**% Change**	**2010**
Mineral extraction tax						
Crude oil	$/tonne	162.93	7.4	151.65	49.7%	101.28
Natural gas	$/1,000 m^3	8.07	0.1	8.06	66.5%	4.84

The tax rates used in the oil industry in Russia are linked to international crude oil prices and change in line with them. The methods to determine the rates for such taxes are presented below.

Crude oil extraction tax rate. The base rate is adjusted depending on the international market price of Urals blend and the ruble exchange rate. The tax rate is zero when the average Urals blend international market price for a tax period is less than or equal to $15.00 per barrel. Each $1.00 per barrel increase in the international Urals blend price over the threshold ($15.00 per barrel) results in an increase of the tax rate by $1.61 per tonne extracted (or $0.22 per barrel extracted using a conversion factor of 7.33).

In 2012, the base rate was 446 rubles (compared to 419 rubles in 2011 and 2010) per metric tonne extracted. The base rate for 2013 is currently set at 470 rubles per metric tonne extracted. However, the rate may be amended by the authorities at any time with immediate effect.

The crude oil extraction tax rate varies depending on the development and depletion of a particular oil field. The tax rate is zero for extra-heavy crude oil and for crude oil produced in certain regions of Eastern Siberia, the Caspian Sea and the Nenetsky Autonomous District, depending on the period and volume of production. The Group benefited from the application of the zero tax rate to crude oil produced from certain greenfields in the Nenetsky Autonomous District, the major of which was the Yu. Khylchuyu oil field, until early December 2010, at which time we exceeded the accumulated production limit of 15 million tonnes at this field eligible for the incentive. Thus, beginning in December 2010, we began paying mineral extraction tax at a regular rate at the Yu. Khylchuyu oil field. The Group also produces crude oil from several greenfields in the Caspian Sea and benefits from the application of a zero extraction tax rate. In 2012, the amount of incentive was approximately RUB 4.0 billion ($129 million) and we expect it to become more sizable as production volumes grow.

Natural gas extraction tax rate. The mineral extraction tax on natural gas produced by independent producers in Russia is calculated using a flat rate. In 2011 and 2010, the rates per thousand cubic metres of natural gas extracted were 237 rubles ($8.06) and 147 rubles ($4.84), respectively. In 2012, the rate was 251 rubles ($8.07) per thousand cubic metres. The rate for 2013 is set at 265 rubles ($8.72) per thousand cubic metres.

Crude oil export duty rate. The crude oil export duty rate is calculated on a progressive scale. The rate is zero when the average Urals blend international market price is less than or equal to approximately $15.00 per barrel ($109.50 per tonne). If the Urals blend price is between $15.00 and $20.00 per barrel ($146.00 per tonne), each $1.00 per barrel increase in the Urals blend price over $15.00 results in an increase of the crude oil export duty rate by $0.35 per barrel exported. If the Urals blend price is between $20.00 and $25.00 per barrel ($182.50 per tonne), each $1.00 per barrel increase in the Urals blend price over $20.00 results in an increase of the crude oil export duty rate by $0.45 per barrel exported. Each $1.00 per barrel increase in the Urals blend price over $25.00 per barrel results in an increase of the crude oil export duty rate by no more than $0.65 per barrel exported. Beginning on 1 October 2011, the maximum increase of the crude oil export duty rate is set at $0.60 per barrel for each $1.00 per barrel increase in the Urals blend price.

The crude oil export duty rate is revised monthly on the basis of the immediately preceding one-month period of crude oil price monitoring.

A special export duty regime is in place for certain greenfields. Effective from December 2010, the list of oil fields subject to the reduced rate includes our Yu. Korchagin and V. Filanovsky oil fields located in the Caspian Sea.

Export duty rates on refined products. Export duty rates on refined products prior to 2011 were set by the Russian Government. The rate of export duty depended on internal demand for refined products and international crude oil market conditions. Beginning in 2011, export duty rates on refined products are calculated by multiplying the current crude oil export duty rate by a coefficient according to the table below. See "*Risk Factors—Risks Relating to the Russian Federation—Initiatives of the Russian Government to level export duties on dark petroleum products may adversely affect our business*".

	Before 1 October 2011	**After 1 October 2011**
Multiplier for:		
Light distillates (except for gasolines), middle distillates (jet fuel), diesel fuel and gasoils	0.670	0.660
Gasolines[(1)]	0.467	0.900
Liquid fuels (fuel oil)	0.467	0.660
Motor and other oils	0.467	0.660
Other products	0.467	0.660

(1) Effective 1 May 2011, the coefficient for gasoline export duty rate is set at 0.9.

Crude oil and refined products exported to member countries of the Custom Union – Belarus and Kazakhstan – are not subject to export duties.

Excise taxes on refined products. The responsibility to pay excise taxes on refined products (except for straight-run gasoline) in Russia is imposed on refined product producers. Only domestic sales volumes are

subject to excise taxes. In other countries where we operate, excise taxes are paid either by producers or retailers depending on the local legislation.

Beginning in 2011, excise tax rates on refined products in Russia were increased and tied to the ecological class of fuel. Excise tax rates set in rubles and translated into U.S. dollars at the average exchange rate for the respective period, are as follows

		2012	% Change	2011	% Change	2010
Gasoline						
Below Euro-3	RUB/tonne	7,976.37	33.1	5,995.00	105.1	2,923.00
Euro-3	RUB/tonne	7,633.37	34.6	5,672.00	42.1	3,992.00
Euro-4	RUB/tonne	6,822.00	32.6	5,143.00	28.8	3,992.00
Euro-5	RUB/tonne	5,977.91	16.2	5,143.00	28.8	3,992.00
Diesel fuel						
Below Euro-3	RUB/tonne	4,199.55	52.5	2,753.00	131.7	1,188.00
Euro-3	RUB/tonne	4,058.33	63.3	2,485.00	109.2	1,188.00
Euro-4	RUB/tonne	3,562.00	58.5	2,247.00	89.1	1,188.00
Euro-5	RUB/tonne	3,260.36	45.1	2,247.00	89.1	1,188.00
Motor oils	RUB/tonne	6,072.00	29.7	4,681.00	44.2	3,246.10
Straight-run gasoline	RUB/tonne	7,824.00	28.5	6,089.00	41.9	4,290.00

		2012	% Change	2011	% Change	2010
Gasoline						
Below Euro-3	$/tonne	256.53	25.8	204.00	112.0	96.25
Euro-3	$/tonne	245.50	27.2	193.01	46.8	131.45
Euro-4	$/tonne	219.41	25.4	175.01	33.1	131.45
Euro-5	$/tonne	192.26	9.9	175.01	33.1	131.45
Diesel fuel						
Below Euro-3	$/tonne	135.06	44.2	93.68	139.5	39.12
Euro-3	$/tonne	130.52	54.4	84.56	116.2	39.12
Euro-4	$/tonne	114.56	49.8	76.46	95.5	39.12
Euro-5	$/tonne	104.86	37.1	76.46	95.5	39.12
Motor oils	$/tonne	195.29	22.6	159.29	49.0	106.89
Straight-run gasoline	$/tonne	251.63	21.4	207.20	46.7	141.26

In 2013, the excise rates will increase as follows:

	1 January 2013 until 30 June 2013		1 July 2013 until 31 December 2013	
	RUB/tonne	*$/tonne*[(1)]	*RUB/tonne*	*$/tonne*[(1)]
Gasoline				
Below Euro-3	10,100.00	332.54	10,100.00	332.54
Euro-3	9,750.00	321.01	9,750.00	321.01
Euro-4	8,560.00	281.83	8,960.00	295.00
Euro-5	5,143.00	169.33	5,143.00	169.33
Diesel fuel				
Below Euro-3	5,860.00	192.94	5,860.00	192.94
Euro-3	5,860.00	192.94	5,860.00	192.94
Euro-4	4,934.00	162.45	5,100.00	167.91
Euro-5	4,334.00	142.69	4,500.00	148.16
Motor oils	7,509.00	247.23	7,509.00	247.23
Straight-run gasoline	10,229.00	336.78	10,229.00	336.78

(1) Using the RUB/US$1.00 exchange rate as of 31 December 2012.

Income tax. The federal income tax rate is 2.0% and the regional income tax rate varies between 13.5% and 18.0%. Our foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

Until 1 January 2012, there were no provisions in the tax legislation of the Russian Federation to permit us to reduce taxable profits of a Group company by offsetting tax losses of another Group company against such profits. Tax losses could be fully or partially used to offset taxable profits in the same company in any of the ten years following the year of loss.

A new concept of a ''consolidated taxpayer'' was incorporated into the Russian Tax Code and became effective on 1 January 2012. The new rules introduced aggregate tax reporting, which enables Russian

companies that form a group (the Tax Group) to consolidate financial results for corporate tax purposes. As a result of this new tax regime, beginning in 2012, taxpayers are able to offset taxable losses generated by participants within a Tax Group against taxable profits of other participants within the Tax Group. Certain Russian companies in our Group met the legislation's requirements and accordingly paid income taxes as part of the Tax Group in 2012, which overall provided a tax benefit with respect to the Group's tax burden for such year. Losses generated by a taxpayer prior to becoming a participant within the Tax Group are not available for offset against the taxable profits of other participants of such Tax Group. However, if a taxpayer leaves a Tax Group, such losses again become available for offset against future profits generated by the same taxpayer. Further, the expiration period for utilizing such losses is extended by the amount of time spent within the Tax Group.

Changes in Tariffs of Natural Monopolies (for Pipeline and Railway Transport)

The main Russian crude oil production regions are far from the main crude oil and refined products markets. Therefore, access to these markets is dependent on the extent of diversification of transport infrastructure and our ability to access this infrastructure. As a result, transportation costs are an important factor affecting our net income. We transport most of our crude oil via a pipeline network owned and operated by Transneft, which is the state-owned pipeline monopoly. In 2012, approximately 88% of the crude oil that we exported was transported through Transneft's oil pipelines. We also transport crude oil and petroleum products via a railway network owned and operated by Russian Railways, the state-owned railroad monopoly. See "*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—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*" for more information on providers of certain crude oil and refined products transportation services in Russia. Transportation of refined products in Russia is carried out by railway transport and the pipeline system of Transnefteproduct.

In Russia, gas is primarily sold at the wellhead and then transported through the UGSS, which is responsible for gathering, transporting, dispatching and delivering substantially all natural gas supplies in Russia, and is owned and operated by Gazprom. We are not able to sell our gas other than through UGSS.

The Federal Tariff Service (the FTS), a governmental body regulating natural monopolies, sets Transneft's and Transnefteproduct's base tariffs for transportation of crude oil and petroleum products, which include a dispatch tariff, a pumping tariff, loading, charge-discharge, transshipment and other tariffs. Tariffs for railroad transportation are also regulated by the FTS. The tariffs are set in rubles and are not linked to the exchange rate. Instead, changes in the tariff rates depend on inflation forecasts by the Ministry of Economic Development of the Russian Federation, the investment needs of owners of transport infrastructure, other macroeconomic factors, and compensation of economically reasonable expenses incurred by the natural monopolies. Tariff rates are revised by the FTS at least annually.

The FTS sets tariffs for each separate route of the pipeline networks depending on transport destination, delivery volume, distance of transportation, and several other factors, alternatively tariffs may be set for the entire route of the pipeline network. Tariffs for railroad transportation, where these costs are not already incorporated in pipeline tariffs, often depend on the type of cargo and the transportation route.

Pipeline Transportation Tariffs

Beginning in September 2011, Transneft's tariffs for crude oil transportation increased by 2.85% on average. Then, in November 2011, the FTS further increased tariffs for oil transportation by another 5.0% on average. At the end of September 2012, FTS increased Transneft's tariffs for oil transportation by 5.5% on average.

From 1 December 2010, Transnefteproduct's tariffs were increased by 9.5% on average for export transportation of refined products and from 1 January 2011, Transnefteproduct's tariffs were increased by 5.9% on average for domestic transportation of refined products. In January 2012, these tariffs were further increased by 6.0% on average for both export and domestic transportation of refined products.

Railroad Transportation Tariffs

Beginning in January 2010, tariffs for railroad transportation were increased by 9.4%. In January 2011 and January 2012, tariffs for railroad transportation were increased by 8.0% and 6.0% on average, respectively. Railway tariffs for freight are expected to increase further by 7.0% in 2013, based on information from the FTS.

Changes in the Production Volumes of Crude Oil, Gas and Refined Products

Our revenues and costs are directly affected by the volume of crude oil, refined products and gas produced by the Group. Please see "—*Operational Highlights—Hydrocarbon Production*" for a discussion of production volumes, sales and expenses.

Operational Highlights

Hydrocarbon Production

We undertake exploration for, and production of, crude oil and natural gas in Russia and internationally. In Russia, our major oil producing subsidiaries are OOO LUKOIL-Western Siberia, OOO LUKOIL-Komi and OOO LUKOIL-PERM. Exploration and production outside of Russia is performed by our wholly-owned subsidiary LUKOIL-Overseas, which has interests in projects in Kazakhstan, Azerbaijan, Uzbekistan, Iraq, Saudi Arabia, Egypt, Ghana, Cote d'Ivoire, Vietnam, Venezuela and Sierra Leone.

The following table sets forth our production volumes, sales and expenses for the periods indicated.

	Year ended 31 December		
	2012	**2011**	**2010**
	(thousands boe per day)		
Daily production of hydrocarbons, including our share in equity affiliates, including:	2,170	2,166	2,269
crude oil and natural gas liquids[1]	1,850	1,875	1,977
natural gas[2]	320	291	292
	(U.S. dollar per boe)		
Hydrocarbon extraction expenses	5.04	4.96	4.30
– in Russia	5.03	4.97	4.31
– outside Russia	5.07	4.85	4.29
	(millions of U.S. dollars)		
Hydrocarbon extraction expenses	3,861	3,771	3,430
– in Russia	3,562	3,529	3,212
– outside Russia	299	242	218
Exploration expenses	364	532	336
– in Russia	205	93	96
– outside Russia	159	439	240
Mineral extraction tax	12,354	11,594	7,864
– in Russia	12,261	11,502	7,795
– outside Russia	93	92	69

(1) Natural gas liquids produced at the Group's gas processing plants.

(2) Gas available for sale (excluding gas produced for our own consumption and including petroleum gas sold to third parties).

Crude oil production. In 2012, our total daily crude oil production decreased to 1,813 mbls, or by 1.5% compared to 2011. In 2012, we produced (including our share in equity affiliates) 663.4 mmbls (89.9 million tonnes) of crude oil. The following table sets forth our total crude oil production by our major operating regions and internationally, in each of the years ended 31 December 2012, 2011 and 2010.

		Change from 2011				**Change from 2010**			
	2012	**Total, %**	**Change in Structure**	**Organic Change**	**2011**	**Total, %**	**Change in Structure**	**Organic Change**	**2010**
				(thousands of tonnes)					
Western Siberia	49,214	0.2	–	112	49,102	(3.6)	–	(1,832)	50,934
Timan-Pechora	15,634	(10.9)	–	(1,913)	17,547	(17.1)	–	(3,628)	21,175
Ural region	13,498	5.4	–	693	12,805	3.4	–	420	12,385
Volga region	3,603	12.5	–	400	3,203	9.8	–	287	2,916
Other in Russia	1,899	(2.7)	–	(53)	1,952	(3.4)	–	(69)	2,021
Crude oil produced in Russia	83,848	(0.9)	–	(761)	84,609	(5.4)	–	(4,822)	89,431
Crude oil produced internationally	3,342	(2.1)	(74)	3	3,413	(1.4)	–	(47)	3,460
Total crude oil produced by consolidated subsidiaries	**87,190**	**(0.9)**	**(74)**	**(758)**	**88,022**	**(5.2)**	**–**	**(4,869)**	**92,891**
Our share in crude oil production of equity affiliates:									
in Russia	386	8.1	-	29	357	6.3	-	21	336
outside Russia	2,280	(10.2)	–	(258)	2,538	(8.2)	–	(227)	2,765
Total crude oil production	**89,856**	**(1.2)**	**(74)**	**(987)**	**90,917**	**(5.3)**	**–**	**(5,075)**	**95,992**

In 2012, 2011 and 2010, crude oil produced in Russia accounted for 93.7%, 93.5% and 93.5%, respectively, of the Group's total crude oil produced. The main oil producing region for the Group is the Western Siberian region of Russia, which accounted for 56.4% of our total crude oil produced in 2012 (55.8% in 2011 and 54.8% in 2010). Beginning in the second half of 2011, the Group has stabilised crude oil production in the Western Siberian region, which had been declining for several preceding years.

The primary reason for the decrease in production in Russia in 2012 and 2011 was the continued trend of increasing water cut at our Yu. Khylchuyu oil field in the Timan-Pechora region.

The decrease of our international production in 2012 was a result of the sale of 1.5% (10.0% of our share) in the Karachaganak Petroleum Operating (KPO) consortium, an upstream project in the Republic of Kazakhstan, to KazMunayGaz, the state-owned gas company, in the second quarter of 2012 as part of a settlement agreement reached with the Republic of Kazakhstan. See "*Additional Information Regarding the Company—Litigation and Claims*".

Crude oil purchases. In addition to our production, we purchase crude oil in Russia and on international markets. In Russia, we primarily purchase crude oil from affiliated producing companies and other producers. Then we either refine or export purchased crude oil. Crude oil purchased on international markets is normally used for trading activities, for supplying our international refineries or for processing at third party refineries.

The following table sets forth crude oil purchased in Russia and internationally for the periods indicated.

	Year ended 31 December					
	2012		**2011**		**2010**	
	(mbls)	*(thousand tonnes)*	*(mbls)*	*(thousand tonnes)*	*(mbls)*	*(thousand tonnes)*
Crude oil purchases in Russia	1,994	272	4,010	547	2,243	306
Crude oil purchases internationally	119,883	16,355	151,753	20,703	156,759	21,386
Total crude oil purchased	**121,877**	**16,627**	**155,763**	**21,250**	**159,002**	**21,692**

A significant portion of our crude oil purchases is used for processing. In 2012, we purchased 12,512 thousand tonnes of crude oil (75.3% of our total crude oil purchased) to process at our and third party refineries, compared to 12,969 thousand tonnes in 2011 and 12,516 thousand tonnes in 2010, which accounted for 61.0% and 57.7% of our total crude oil purchased in 2011 and 2010, respectively.

The decrease in 2012 of total crude oil purchased compared to 2011 was due to higher volumes of our own supply and a decrease in our crude oil purchases used for trading.

Production of gas and natural gas liquids. In 2012, we produced 19,934 mmcm (117.3 mmboe) of gas available for sale (including our share in equity affiliates), an increase of 10.5%, compared to 2011. In 2011, we produced 18,038 mmcm (106.2 mmboe) of gas available for sale (including our share in equity affiliates), which was at approximately the same level as in 2010.

Our major gas production field is the Nakhodkinskoe gas field, where we produced 8,041 mmcm (47.3 mmboe) of natural gas in 2012, compared to 8,273 mmcm (48.7 mmboe) in 2011, or a decrease of 2.8%. This decrease was offset by a 39.7% increase in our international natural gas production, where we produced 5,801 mmcm (34.1 mmboe) of natural gas in 2012, compared to 4,152 mmcm (24.4 mmboe) in 2011. The increase in our international gas production was due to continued growth of our production in Uzbekistan. We produced 992 mmcm (5.8 mmboe) of natural gas from the Gissar field (where commercial production began in December 2011) and increased production for the Khauzak field by 635 mmcm (3.7 mmboe), or 24.2%.

In 2012, the output of natural gas liquids in our gas processing plants in Western Siberian, Ural and Volgograd regions of Russia was 1.2 million tonnes (13.6 mmboe), compared to 1.1 million tonnes (13.1 mmboe) in 2011, or an increase of 3.7%.

Refining, Marketing and Trading

Refining. We own and operate four refineries located in Russia and four refineries located outside of Russia – in Bulgaria, Italy, Romania and Ukraine. Moreover, we have a 45% interest in the Zeeland refinery in The Netherlands. In September 2012, we increased our interest in the ISAB refinery complex in Italy from 60% (49% prior to April 2011) to 80%, resulting in our obtaining control over ISAB. Therefore, beginning in September 2012, ISAB became a consolidated subsidiary of our Group rather than an equity affiliate. In March 2013, we entered into an agreement with VETEK Group to sell our 99.58% interest in the Odessa refinery.

The total volume of refined products produced by the Group in 2012 (including our share in the production by our equity affiliates) increased by 1.8% compared to 2011. Production at our Russian refineries decreased by 1.8% due primarily to scheduled overhauls. This decrease was offset by an increase in our international refineries' production, which increased by 9.7% over the same period in 2011, as a result of our acquisition of a controlling interest in ISAB.

We have invested, and will continue to invest, significant resources in upgrading our refineries to produce ecological fuel of the highest quality standards. Beginning in July 2012, all gasoline and most of the diesel fuel produced by the Group in Russia complies with Euro-5 standards. In late 2012, a new diesel fuel hydrorefining unit with rated capacity of 3.0 million tonnes per year was put into operation at our refinery in Volgograd, which made all of the refinery's diesel fuel output compliant with Euro-5 standards. In February 2013, we began construction at our Volgograd refinery of a complex for the deep refining of vacuum gas oil, which is expected to allow the refinery to increase Euro-5 diesel fuel output by 1.8 million tonnes per year. Construction of the complex is expected to be completed in 2015 and will cost approximately $1.4 billion. At our Russian refineries, we produced 9,494, 8,701 and 8,429 thousand tonnes of Euro-4 and -5 diesel fuel and 6,834, 6,416 and 5,373 thousand tonnes of Euro-3, -4 and -5 gasoline in 2012, 2011 and 2010, respectively.

Along with our own production of refined products, we can refine crude oil at third party refineries depending on market conditions and other factors. In 2011, we began processing our crude oil at a third party refinery in Kazakhstan. In 2012, we restarted processing operations in Belarus.

The following table sets forth refining expenses, volumes of refinery throughput and volumes of refined products produced for the years ended 31 December 2012, 2011 and 2010.

	Year ended 31 December		
	2012	2011	2010
	(millions of U.S. dollars)		
Refining expenses at Group refineries	1,669	1,418	1,121
– in Russia	1,141	1,112	806
– outside Russia[1]	528	306	315
Refining expenses at ISAB and Zeeland[2]	702	890	719
Refining expenses at third party refineries	96	7	5
Capital expenditures	1,406	783	702
– in Russia	988	586	542
– outside Russia	418	197	160
	(thousand barrels per day)		
Refinery throughput at the Group refineries	1,128	1,073	1,107
– in Russia	890	909	908
– outside Russia[1][3]	238	164	199
Refinery throughput at ISAB and Zeeland[2][3]	195	230	222
Refinery throughput at third party refineries	53	5	2
Total refinery throughput	**1,376**	**1,308**	**1,331**
	(thousand tonnes)		
Refined products produced at the Group refineries	54,009	51,055	52,762
– in Russia	42,468	43,248	43,346
– outside Russia[1]	11,541	7,807	9,416
Production of ISAB and Zeeland[2]	9,764	11,612	11,008
Refined products produced at third parties	2,472	256	107
Total refined products produced	**66,245**	**62,923**	**63,877**

(1) Including 80% share of ISAB beginning September 2012.
(2) Including 60% share of ISAB from April 2011 to August 2012 (49% share of ISAB before April 2011) and 45% share of Zeeland refinery.
(3) Including refined product processed.

Marketing and trading. Our marketing and trading activities mainly include wholesale and bunkering operations in Western Europe, South-East Asia, Central America and retail operations in the United States, Central and Eastern Europe, the Baltic States and other regions. In Russia, we purchase refined products on occasion, primarily to manage supply chain bottlenecks.

As of 31 December 2012, we owned, leased and franchised 5,929 retail filling stations, including 2,368 in Russia, 503 in the CIS (excluding Russia), 212 in the Baltic countries, 2,421 in Europe and 425 in the United States. Most of the stations operate under the LUKOIL brand. Due to the restructuring of our retail network in the United States, the number of petrol stations that we operate has decreased since the beginning of 2011. See "*Business—Refining, Marketing and Distribution—Retail Marketing*" for more information about the restructuring of our retail network in the United States.

The table below summarises our marketing and trading activities for the years ended 31 December 2012, 2011 and 2010.

	Year ended 31 December		
	2012	**2011**	**2010**
	(thousand tonnes)		
Retail sales	15,424	15,249	14,336
Wholesale sales	97,558	87,337	91,020
Total refined products sales	**112,982**	**102,586**	**105,356**
Refined products purchased in Russia	1,772	2,026	1,853
Refined products purchased internationally	52,761	45,655	45,816
Total refined products purchased	**54,533**	**47,681**	**47,669**

Exports of Crude Oil and Refined Products from Russia

The volumes of crude oil exported from Russia by our subsidiaries in the years ended 31 December 2012, 2011 and 2010 are summarised as follows:

	Year ended 31 December					
	2012		**2011**		**2010**	
	(mbls)	*(thousand tonnes)*	*(mbls)*	*(thousand tonnes)*	*(mbls)*	*(thousand tonnes)*
Exports of crude oil using Transneft export routes	223,185	30,448	215,605	29,414	231,525	31,586
Exports of crude oil bypassing Transneft	31,418	4,286	38,739	5,285	65,999	9,004
Total crude oil exports	**254,603**	**34,734**	**254,344**	**34,699**	**297,524**	**40,590**

In 2012, the volume of crude oil that we exported from Russia remained at approximately the same level as in 2011. In 2012, we exported 41.4% of our total domestic crude oil production, compared to 41.0% in 2011 and 45.4% in 2010.

Almost all of the crude oil that we export bypassing Transneft was routed through our own export infrastructure. The decrease in the exports of crude oil through our own infrastructure was mainly caused by a decrease in production from Yu. Khylchuyu oil field (which produced 1,275 thousand tonnes in 2012 compared to 3,316 thousand tonnes in 2011).

In 2012, we exported from Russia 22.5 million tonnes of refined products, a decrease of 6.2% compared to 2011. In 2011 and 2010, we exported 24.0 million tonnes and 25.8 million tonnes of refined products, respectively. The decreases in each of 2011 and 2012 were mostly due to an increase in domestic sales volumes. Primarily, we export from Russia diesel fuel, fuel oil and gasoil. These products accounted for approximately 89% of our refined products export volumes in each of 2012 and 2011 and approximately 92% of our refined products export volumes in 2010.

In 2012, our revenue from the export of crude oil and refined products from Russia both to Group companies and third parties amounted to $25,174 million and $16,779 million, respectively ($25,022 million and $22,178 million for crude oil in 2011 and 2010, respectively, and $17,725 million and $14,088 million for refined products in 2011 and 2010, respectively).

Power Generation

In 2012, we continued to develop the power generation sector of our business as part of our strategic development programme. This new sector encompasses all aspects of the power generation business, from generation to transmission and sale of heat and electrical power. Our power generation business sector includes OOO LUKOIL-Volgogradenergo, OOO LUKOIL-Kubanenergo, OOO LUKOIL-Astrakhanenergo, OOO LUKOIL-Rostovenergo, OOO LUKOIL-Stavropolenergo, OOO LUKOIL-TTK, LUKOIL-Ecoenergo, our own power generating facilities at our oil and gas fields in Russia and power generators in Bulgaria, Romania and Ukraine.

Our total output of electrical energy was 15.4 billion kWh in 2012, 13.1 billion kWh in 2011 and 13.2 billion kWh in 2010. Our total output of heat energy was approximately 14.7 million Gcal in 2012, 15.5 million Gcal in 2011 and 15.3 million Gcal in 2010.

In 2011, we commissioned a combined cycle gas turbine (CCGT) unit with a capacity of 110 MW in Astrakhan. The CCGT unit utilises natural gas as primary and backup fuel. LUKOIL invested over $150 million in the project. We also completed the construction of a CCGT unit with a capacity of 410 MW in Krasnodar in 2011. The turbine is currently in standby mode. The new unit increased the installed electric capacity of our power plant in Krasnodar to 1,090 MW.

In 2012, we began construction of two additional CCGT units in Astrakhan with a combined capacity of 235 MW. Completion of these CCGT units is currently scheduled for the third quarter of 2013.

Results of Operations

The following table sets forth selected data from our consolidated statements of comprehensive income for the periods indicated.

	Year ended 31 December		
	2012	**2011**	**2010**
	(millions of U.S. dollars)		
Revenues			
Sales (including excise and export tariffs)	139,171	133,650	104,956
Costs and other deductions			
Operating expenses	(9,359)	(9,055)	(8,298)
Cost of purchased crude oil, gas and products	(64,148)	(59,694)	(43,250)
Transportation expenses	(6,171)	(6,121)	(5,608)
Selling, general and administrative expenses	(3,755)	(3,822)	(3,558)
Depreciation, depletion and amortisation	(4,832)	(4,473)	(4,154)
Taxes other than income taxes	(13,666)	(12,918)	(8,978)
Excise and export tariffs	(22,836)	(22,217)	(18,878)
Exploration expense	(364)	(532)	(336)
Gain (loss) on disposals and impairments of assets	30	(1,663)	(363)
Income from operating activities	**14,070**	**13,155**	**11,533**
Interest expense	(538)	(694)	(712)
Interest and dividend income	257	211	174
Equity share in income of affiliates	518	690	472
Currency translation loss	(512)	(301)	(122)
Other non-operating (expense) income	(72)	58	125
Income before income taxes	**13,723**	**13,119**	**11,470**
Current income taxes	(2,738)	(2,678)	(2,104)
Deferred income taxes	(60)	(615)	(247)
Total income tax expense	**(2,798)**	**(3,293)**	**(2,351)**
Net income	**10,925**	**9,826**	**9,119**
Net loss (income) attributable to non-controlling interests	79	531	(113)
Net income attributable to OAO LUKOIL	**11,004**	**10,357**	**9,006**
Earnings per share of common stock attributable to OAO LUKOIL (in U.S. dollars):			
Basic	14.47	13.30	10.95
Diluted	14.17	13.04	10.94

The analysis of the principal financial indicators from the financial statements is provided below.

Sales Revenues

The following table sets forth our sales revenues by type of product and market for the periods indicated.

	Year ended 31 December		
	2012	**2011**	**2010**
	(millions of U.S. dollars)		
Crude oil			
Export and sales on international markets other than CIS	24,414	30,132	25,251
Export and sales to CIS	1,622	2,390	1,091
Domestic sales	1,634	1,571	956
	27,670	**34,093**	**27,298**
Refined products			
Export and sales on international markets			
Wholesale	75,880	65,060	50,340
Retail	10,724	11,275	9,678
Domestic sales			
Wholesale	8,113	7,349	5,427
Retail	8,690	7,893	5,501
	103,407	**91,577**	**70,946**
Petrochemicals			
Export and sales on international markets	992	1,095	642
Domestic sales	418	914	728
	1,410	**2,009**	**1,370**
Gas and gas products			
Export and sales on international markets	2,385	1,878	1,565
Domestic sales	1,092	1,001	786
	3,477	**2,879**	**2,351**
Sales of energy and related services	**1,394**	**1,472**	**1,416**
Other			
Sales on international markets	962	880	890
Domestic sales	851	740	685
	1,813	**1,620**	**1,575**
Total sales	**139,171**	**133,650**	**104,956**

Sales Volumes

The following table sets forth our sales volumes by type of product and market for the periods indicated.

	Year ended 31 December		
	2012	**2011**	**2010**
		(mbls)	
Crude oil			
Export and sales on international markets other than CIS	222,466	275,696	326,669
Export and sales to CIS	31,622	45,329	23,280
Domestic sales	33,264	32,699	26,637
	287,352	**353,724**	**376,586**
		(thousand tonnes)	
Crude oil			
Export and sales on international markets other than CIS	30,350	37,612	44,566
Export and sales to CIS	4,314	6,184	3,176
Domestic sales	4,538	4,461	3,634
	39,202	**48,257**	**51,376**
		(thousand tonnes)	
Refined products			
Export and sales on international markets			
Wholesale	85,917	76,313	80,043
Retail	6,568	6,945	7,314
Domestic sales			
Wholesale	11,641	11,024	10,977
Retail	8,856	8,304	7,022
	112,982	**102,586**	**105,356**
Total sales volume of crude oil and refined products	**152,184**	**150,843**	**156,732**

Realised Average Sales Prices

The following table sets forth our average realised sales prices for the years ended 31 December 2012, 2011 and 2010.

		2012	**2011**	**2010**
Average realised price international				
Crude oil (excluding CIS)	($/barrel)	109.74	109.30	77.30
Crude oil (CIS)	($/barrel)	51.31	52.71	46.84
Refined products				
Wholesale	($/tonne)	883.18	852.55	628.91
Retail	($/tonne)	1,632.81	1,623.53	1,323.31
Average realised price within Russia				
Crude oil	($/barrel)	49.12	48.06	35.90
Refined products				
Wholesale	($/tonne)	696.91	666.62	494.37
Retail	($/tonne)	981.21	950.51	783.49

Year Ended 31 December 2012 Compared to Year Ended 31 December 2011 and Year Ended 31 December 2011 Compared to Year Ended 31 December 2010

Total Operating Revenues

In 2012, our revenues increased by $5,521 million, or 4.1%, compared to 2011 (in 2011, revenues increased by $28,694 million, or 27.3%, compared to 2010). Our revenues from crude oil sales decreased by $6,423 million, or 18.8% (in 2011, revenues from crude oil sales increased by $6,795 million, or 24.9%, compared to 2010). Our revenues from sales of refined products increased by $11,830 million, or 12.9% (in 2011, revenues from sales of refined products increased by $20,631 million, or 29.1%, compared to 2010).

The increase in total sales revenue in 2012 was largely due to increases in refined products volumes and hydrocarbon prices.

Sales of crude oil

2012 vs. 2011

Compared to 2011, our total crude oil sales revenues decreased by $6,423 million, or 18.8%, in 2012 as a result of a decrease in sales volumes by 9,055 thousand tonnes, or 18.8%. The decrease in our sales volumes was primarily due to a scale down of our trading operations, an increase in refinery throughput and an overall decrease in production.

In 2012, our revenue from crude oil exported from Russia to Group companies and third parties amounted to $25,174 million, which was roughly the same as in 2011.

2011 vs. 2010

In 2011, our total crude oil sales revenues increased by $6,795 million, or 24.9%, compared to 2010, which was partially offset by a decrease in our sales volumes by 6.1% (3,119 thousand tonnes) due to a decrease in production. Compared to 2010, we significantly increased crude oil supplies to Belarus, while sales to countries outside the CIS decreased correspondingly.

In 2011, revenue from the export of crude oil from Russia to Group companies and third parties amounted to $25,022 million, an increase of 12.8% compared to $22,178 million of such revenue in 2010. This increase was mainly due to an increase in hydrocarbon prices.

Sales of refined products

2012 vs. 2011

Compared to 2011, our revenue from the wholesale of refined products outside of Russia increased by $10,820 million, or 16.6%, as a result of an increase in sales volumes by 12.6% and prices by 3.6%.

In 2012, our revenue from international retail sales decreased by $551 million, or 4.9%. Average prices increased by 0.6% while sales volumes decreased by 377 thousand tonnes, or 5.4%, mainly as a result of the restructuring of our retail network in the United States.

Our revenue from the wholesale of refined products on the domestic market in 2012 increased by $764 million, or 10.4%, compared to 2011, due to increases in sales volumes and the average realised wholesale price of refined products. In 2012, our average realised price from the wholesale of refined products increased by $30.3 per tonne, or 4.5%, and our sales volumes of such products increased by 617 thousand tonnes, an increase of 5.6% over 2011 sales volumes.

Our revenue from retail sales in Russia increased by $797 million, or 10.1%, in 2012 due to an increase in sales volumes and in retail prices. Domestic retail sales volumes increased by 552 thousand tonnes, or 6.6%, resulting from an increase in domestic demand for motor fuels. Average retail prices in Russia increased by $30.7 per tonne, an increase of 3.2%, compared to 2011.

In 2012, our revenue from the export of refined products from Russia to Group companies and third parties amounted to $16,779 million, a decrease of $946 million, or 5.3%, compared to 2011, primarily due to a decrease in export volumes.

2011 vs. 2010

Our revenue from the wholesale of refined products outside of Russia increased by $14,720 million, or 29.2%, in 2011, due primarily to a 35.6% increase in the average realised prices. At the same time, wholesale volumes decreased by 3,730 thousand tonnes, or 4.7%, mainly as a result of a decrease in exports from Russia and the shutdown of our Odessa refinery.

In 2011, our revenue from international retail sales increased by $1,597 million, or 16.5%, compared to 2010, due to an increase in average prices of 22.7%. Retail sales volumes decreased by 369 thousand tonnes, or 5.0%, following the restructuring of our retail network in the United States. The decrease was partially offset by increased demand (and accordingly higher retail sales volumes) in Europe.

Our revenue from the wholesale of refined products in Russia increased by $1,922 million in 2011, an increase of 35.4%, which was attributable to a 34.8% increase in average realised prices (or increase of $172.2 per tonne) compared to 2010. Sales volumes in 2011 compared to 2010 were static.

Our revenue from retail sales in Russia increased by $2,392 million, or 43.5%, in 2011, due to an increase in prices and sales volumes. Domestic retail sales volumes increased by 1,282 thousand tonnes, or 18.3%, following a significant increase in domestic demand.

In 2011, our sales revenue from the export of refined products from Russia to Group companies and third parties amounted to $17,725 million compared to $14,088 million in 2010, an increase of 25.8%, as a result of an increase in hydrocarbon prices.

Sales of petrochemical products

2012 vs. 2011

In 2012, our revenue from sales of petrochemical products decreased by $599 million, or 29.8%, mainly as a consequence of a fire at our petrochemical plant in Stavropol, Russia in December 2011, which also caused domestic sales volumes to drop by 55.0% compared to 2011. International sales volumes also decreased by 8.2%, due to a temporary shutdown at our petrochemical plant Karpatnaftochim Ltd. in Ukraine, which resulted from unfavourable economic conditions.

2011 vs. 2010

In 2011, our revenue from sales of petrochemical products increased by $639 million, or 46.6%, mainly as a result of an increase in international sales volumes. In the fourth quarter of 2010, we commenced production at our petrochemical plant Karpatnaftochim Ltd. in Ukraine after modernization and construction of a chlorine and caustic production line. As a result, our average realised prices increased by $127.5 per tonne, or 11.8%, compared with 2010.

Sales of gas and gas products

2012 vs. 2011

Sales of gas and gas refined products increased by $598 million, or 20.8%, in 2012, largely due to an increase in gas production in Uzbekistan. Compared to 2011, gas products wholesales revenue increased by $129 million, or 10.8%, in 2012. Average realised wholesale prices for gas products decreased by 2.4% in 2012 compared to 2011, while sales volumes increased by 13.6%.

Retail gas products revenue in 2012 remained static compared to such revenue in 2011.

Natural gas sales revenue increased by $422 million, or 48.8%, in 2012, which reflected increases in revenue both domestically and internationally. In Russia, the increase in revenue was primarily the result of an increase of 37% in our sales price to Gazprom, the major purchaser of our natural gas produced in Russia. Outside Russia, the increase in natural gas sales revenue was due to increases in both sales volumes and prices in Uzbekistan.

2011 vs. 2010

Sales of gas and gas refined products increased by $528 million, or 22.5%, in 2011. Wholesale gas refined products sales revenue increased by $364 million, or 43.6%, primarily as a result of an increase in sales prices. Retail gas products revenue increased by $112 million, or 22.1%, also due to price growth.

In 2011, natural gas sales revenue increased by $30 million, or 3.6%.

Sales of energy and related services

2012 vs. 2011

In 2012, our revenue from sales of electricity, heat and related services decreased by $78 million, or 5.3%. Compared to 2011, the revenue of our power generating subsidiaries increased, among other factors, as a result of commencement of sales of energy to third parties in Ukraine and Bulgaria. At the same time, the volume of resale operations decreased.

2011 vs. 2010

In 2011, our revenue from sales of electricity, heat and related services increased by $56 million, or 4.0%. This growth was a result of an increase in tariff rates and the ruble appreciation. At the same time, in the second half of 2011, the revenue of our energy segment decreased significantly due to the reduction of resale operations.

Sales of other products

Other sales include non-petroleum sales through our retail network, rental revenue, revenue from transportation, crude oil extraction and refining services, and other revenue of our production and marketing companies from sales of goods and services not related to our primary activities.

2012 vs. 2011

In 2012, other sales increased by $193 million, or 11.9%. This increase includes $85 million of revenue from processing operations at ISAB from September through December 2012.

2011 vs. 2010

In 2011, other sales increased by $45 million, or 2.9%. The sales of goods and other products from our retail stations increased to $700 million, or 15.5%. At the same time, transportation services provided to third parties decreased compared to 2010.

Operating Expenses

The following table provides a breakdown of our operating expenses for the periods indicated below.

	Year ended 31 December		
	2012	**2011**	**2010**
	(millions of U.S. dollars)		
Hydrocarbon extraction expenses	3,861	3,771	3,430
Own refining expenses	1,669	1,418	1,121
Refining expenses at third party and affiliated refineries	798	897	724
Cost of processing operations at ISAB	64	–	–
Expenses for crude oil transportation to refineries	1,241	1,060	1,048
Power general and distribution expenses	619	617	654
Petrochemical expenses	303	343	221
Other operating expenses	804	949	1,100
Total operating expenses	**9,359**	**9,055**	**8,298**

The method of allocation of operating expenses above differs from the approach used in preparing the data for Note 22 ''Segment information'' to our consolidated financial statements. Expenditures in the segment reporting are grouped depending on the segment to which a particular company belongs. Operating expenses for the purposes of this analysis are grouped based on the nature of the costs incurred.

Our total operating expenses increased by $304 million, or 3.4%, in 2012 and by $757 million, or 9.1%, in 2011.

Hydrocarbon extraction expenses

Our extraction expenses include expenditures related to repairs of extraction equipment, labour costs, expenses on artificial stimulation of reservoirs, fuel and electricity costs, property insurance of extraction equipment and other similar costs.

2012 vs. 2011

In 2012, our extraction expenses increased by $90 million, or 2.4%. Increases in costs of artificial stimulation of reservoirs, power supply, repairs and maintenance and labour costs were largely offset by a devaluation of the Russian ruble against the U.S. dollar. Our average hydrocarbon extraction cost increased from $4.96 per BOE in 2011 to $5.04 per BOE in 2012.

2011 vs. 2010

In 2011, our extraction expenses increased by $341 million, or 9.9%, compared to 2010. Our average hydrocarbon extraction cost increased from $4.30 per BOE to $4.96 per BOE, or 15.3%, compared to 2010. The increase was mainly the result of the appreciation of the Russian ruble against the U.S. dollar and increased expenses for power supply, repairs and labour costs.

Own refining expenses

2012 vs. 2011

Our own refining expenses increased by $251 million, or 17.7%, in 2012.

In 2012, refining expenses at our domestic refineries increased by $29 million, or 2.6%, compared to 2011. The increase of expenses was largely due to an increase in consumption and the cost of additives and overhauls at our refineries. The increase, however, was partially offset by the devaluation of the Russian ruble against the U.S. dollar in 2012.

Refining expenses at our international refineries increased by $222 million, or 72.5%, compared to 2011. The increase was mainly due to obtaining control over the joint venture that operates the ISAB refinery in September 2012 (when we began accounting for ISAB on a consolidated basis). See "*—Recent Developments and Outlook—Refining, Marketing and Distribution*" for more information on ISAB.

2011 vs. 2010

Our own refining expenses increased by $297 million, or 26.5%, in 2011.

Refining expenses at our domestic refineries increased by $306 million, or 38.0%. This increase was a result of an increase in consumption and the cost of additives, increased power supply costs, higher expenses on repairs and the ruble appreciation against the U.S. dollar.

Refining expenses at our international refineries decreased by $9 million, or 2.9%, in 2011, due to decreased production volumes at our Bulgarian and Romanian refineries. This decrease, however, was partially offset by higher energy costs and overhauls. Moreover, we continued to incur operating expenses at our dormant refinery in Odessa (albeit at a significantly lower level than in 2010) due to keeping production facilities online.

Refining expenses at third party and affiliated refineries

Along with our own production of refined products, we contract with third party and affiliated refineries both in Russia and abroad to refine our crude oil.

2012 vs. 2011

In 2012, refining expenses at third party and affiliated refineries decreased by $99 million, or 11.0%, compared to 2011. The decrease was due to obtaining control over ISAB in September 2012, which was partially offset by the commencement of crude oil processing at third party refineries in Belarus in the beginning of 2012.

2011 vs. 2010

In 2011, refining expenses at third party and affiliated refineries increased by $173 million, or 23.9%, due to the increase in our ownership of ISAB from 49% to 60% in April 2011 (resulting in the increase of our share of ISAB's costs). Increased energy costs, the appreciation of euro to the U.S. dollar and overhauls performed at the ISAB complex in the first quarter of 2011 also contributed to the increase in expenses for crude oil refining at third party and affiliated refineries.

Expenses for crude oil transportation to refineries

Expenses for crude oil transportation to refineries include pipeline, railway, freight and other costs related to the delivery of the Group's own crude oil to refineries for further processing.

2012 vs. 2011

In 2012, expenses for crude oil transportation to refineries increased by $181 million, or 17.1%. The increase was largely due to supplies of our crude oil to refineries in Belarus, where we commenced crude oil processing in the first quarter of 2012.

2011 vs. 2010

Expenses for crude oil transportation to refineries in 2011 remained static compared to such expenses in 2010. The increase in transportation tariffs in 2011 and the effect of ruble appreciation was offset by a decrease in the volume of our own crude oil that we supplied to refineries.

Petrochemical expenses

2012 vs. 2011

In 2012, operating expenses of our petrochemical plants decreased by $40 million, or 11.7%, compared to 2011. Despite the sharp decrease in production as a result of the fire that destroyed the ethylene production unit at our plant in Stavropol, Russia, operating expenses of the plant did not decrease significantly due to overhauls at other plant units. The effect of decreased production at the Group's other petrochemical plants and the devaluation of local currencies against the U.S. dollar also contributed to the decrease of expenses, but these decreases were partially offset by our consolidation of ISAB, which has some petrochemical production lines, in September 2012.

2011 vs. 2010

In 2011, operating expenses of our petrochemical plants increased by $122 million, or 55.2%, due to an increase in production volumes as a result of the commencement of production at our petrochemical plant Karpatnaftochim Ltd. in Ukraine in the fourth quarter of 2010 after modernization and construction of a chlorine and caustic production line. Additionally, the increased consumption of raw materials due to the changes in product mix and ruble appreciation contributed to an increase in our petrochemical expenses in 2011 compared to 2010.

Other operating expenses

Other operating expenses include expenses of the Group's upstream and downstream enterprises that do not relate to their core activities, namely rendering of transportation and extraction services, operating expenses of our gas processing plants, costs of other services provided and goods sold by our production and marketing companies, and of non-core businesses of the Group.

2012 vs. 2011

In 2012, other operating expenses decreased by $145 million, or 15.3%, driven largely by movements in the fair value of liabilities related to asset retirement obligations.

2011 vs. 2010

In 2011, other operating expenses decreased by $151 million, or 13.7%. The decrease was the result of lower volumes of transportation services provided outside of Russia and a decrease in our rental activities as a result of the restructuring of our retail network in the United States.

Cost of Purchased Crude Oil, Gas and Products

Cost of purchased crude oil, gas and products includes the cost of crude oil and refined products purchased for trading or refining, gas and fuel oil to supply our power generation entities and the results of our hedging of international crude oil and refined products sales.

2012 vs. 2011

Cost of purchased crude oil, gas and products increased by $4,454 million in 2012, or 7.5%, compared to 2011, mainly driven by movements in refined products trading volumes.

In 2012, we recognized a $321 million loss from hedging, compared to a $657 million loss in 2011.

2011 vs. 2010

Cost of purchased crude oil, gas and products increased by $16,444 million in 2011, or 38.0%, due to an increase in crude oil and refined products prices.

In 2011, we recognized a $657 million loss from hedging, compared to a $232 million loss in 2010.

Transportation Expenses

2012 vs. 2011

Our transportation expenses remained relatively static in 2012 compared to 2011 (such expenses increased by $50 million, or 0.8%, in 2012).

Our actual transportation expenses related to crude oil and refined products deliveries to various export destinations, weighted by volumes transported, changed in 2012 as compared to 2011 as follows: crude oil

pipeline tariffs increased by 2.8%, railway tariffs for refined products transportation decreased by 3.6%, crude oil freight rates increased by 10.6% and refined products freight rates increased by 6.2%.

2011 vs. 2010

In 2011, our transportation expenses increased by $513 million, or 9.1%, compared to 2010. This increase was primarily related to transportation expenses in Russia and resulted from the appreciation of the Russian ruble, increased tariffs and changes in supply directions.

Our actual transportation expenses related to crude oil and refined products deliveries to various export destinations, weighted by volumes transported, changed in 2011, compared to 2010, as follows: crude oil pipeline tariffs increased by 14.1%, railway tariffs for refined products transportation increased by 6.9%, crude oil freight rates decreased by 3.5%, and refined products freight rates decreased by 9.2%.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include payroll costs (excluding extraction entities' and refineries' production staff costs), insurance costs (except for property insurance related to extraction and refinery equipment), costs of maintenance of social infrastructure, movement in bad debt provision and other expenses.

2012 vs. 2011

Our selling, general and administrative expenses in 2012 decreased slightly (by $67 million, or 1.8%) in comparison to 2011.

2011 vs. 2010

Our selling, general and administrative expenses increased by $264 million, or 7.4%, in 2011. This increase was driven mainly by higher selling expenses both in Russia and abroad. Expenses in Russia were also adversely affected by the appreciation of the Russian ruble. At the same time, these expenses were partially offset by a decrease in the provision for bad debts.

Equity Share in Income of Affiliates

The Group has investments in equity method affiliates and corporate joint ventures. These 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. Our largest affiliates are Turgai Petroleum and Tengizchevroil, exploration and production companies operating in Kazakhstan, and Zeeland Refinery. In September 2012, we began accounting for the results of ISAB as a consolidated subsidiary, instead of as an equity affiliate, as a result of our acquisition of a controlling interest in ISAB.

2012 vs. 2011

Compared to 2011, our share in income of affiliates decreased by $172 million, or 24.9%. The primary reasons for the decrease were a decrease in crude oil production by our Kazakhstani affiliates and the provision for additional excess profit tax for prior periods accrued by Turgai Petroleum.

2011 vs. 2010

Our share in income of affiliates increased by $218 million, or 46.2%, in 2011, mostly due to an increase in income of Tengizchevroil.

Taxes Other than Income Taxes

The following table sets forth our taxes other than income taxes paid in Russia and internationally for the periods indicated.

	Year ended 31 December		
	2012	**2011**	**2010**
	(millions of U.S. dollars)		
In Russia			
Mineral extraction taxes	12,261	11,502	7,795
Social security taxes and contributions	493	480	327
Property tax	511	538	479
Other taxes	82	77	93
Total in Russia	**13,347**	**12,597**	**8,694**
International			
Mineral extraction taxes	93	92	69
Social security taxes and contributions	111	107	102
Property tax	24	35	39
Other taxes	91	87	74
Total internationally	**319**	**321**	**284**
Total	**13,666**	**12,918**	**8,978**

2012 vs. 2011

Taxes (other than income taxes) increased in 2012 by $748 million, or 5.8%, compared to 2011. This was mainly due to an increase in mineral extraction tax expenses in Russia driven by the increased tax rate.

In 2012, application of the decreased tax rate for crude oil produced from depleted oil fields and the zero tax rate for crude oil produced from oil fields with extra heavy crude oil and from greenfields led to $1,490 million in tax reductions (compared with $1,161 million in 2011). Of this amount, $129 million were from our production activities at the Yu. Korchagin field in the Caspian Sea.

2011 vs. 2010

In 2011, taxes (other than income taxes) increased by $3,940 million, or 43.9%, compared to 2010. This was mainly due to an increase in mineral extraction taxes in Russia as a result of the rise of the tax rate following the increase of international crude oil prices.

In 2011, application of the decreased tax rate for crude oil produced from depleted oil fields and the zero tax rate for crude oil produced from oil fields with extra heavy crude oil and from greenfields led to $1,161 million in tax reductions (compared with $1,313 million in 2010). The main oil field where we benefited from the zero extraction tax rate was the Yu. Khylchuyu field. In early December 2010, accumulated volume of production from this field exceeded the incentive level of 15 million tonnes, at which time we began paying mineral extraction taxes in full with respect to this field.

The increase in social security taxes and contributions in Russia was due to amendments to the tax legislation that became effective in 2011.

Excise and Export Tariffs

The following table sets forth our expenses incurred related to excise and export tariffs in Russia and internationally for the periods indicated.

	Year ended 31 December		
	2012	**2011**	**2010**
	(millions of U.S. dollars)		
In Russia			
Excise tax and sales taxes on refined products	1,922	1,710	951
Export tariffs	11,315	11,714	10,513
Refined products export tariffs	5,561	5,028	3,574
Total in Russia	**18,798**	**18,452**	**15,038**
International			
Excise tax and sales taxes on refined products	3,355	3,445	3,700
Export tariffs	274	319	136
Refined products export tariffs	409	1	4
Total international	**4,038**	**3,765**	**3,840**
Total	**22,836**	**22,217**	**18,878**

2012 vs. 2011

Export tariffs increased in 2012 by $497 million, or 2.9%, compared to 2011. In Russia, export tariffs for refined products increased by 10.6%, despite a decrease in refined products export volumes of 6.2%, as a result of a sharp increase in the export duty rate for fuel oil (which rose by 27.9% in 2012). The share of fuel oil in the Group export structure in 2012 was approximately 40%. This increase was partially offset by a decrease in crude oil export tariffs, largely due to a higher share of crude oil exports to Belarus. Moreover, export tariff savings on crude oil produced from the Yu. Korchagin field in the Caspian Sea amounted to $150 million in 2012. Expenses for refined products export tariffs outside of Russia refer to exports from Belarus, where we commenced crude oil processing in the beginning of 2012.

In Russia, the increase of excise tax expense in 2012 over 2011 was mainly driven by a sharp increase in excise tax rates. Although the excise tax rates for motor fuels increased significantly compared to 2011, the increase in the share of Euro-5 motor fuels that we produce allowed us to avoid the sharp increase of excise tax expense in Russia. In the second half of 2012, all the gasoline produced by the Group in Russia was compliant with Euro-5 standards, while in 2011 the share of Euro-5 gasoline was relatively insignificant.

The decrease in excise tax expense outside of Russia in 2012 compared to 2011 was the result of lower sales volumes subject to excise taxes as well as the devaluation of the euro and local currencies against the U.S. dollar.

2011 vs. 2010

Export tariffs increased by $2,835 million, or 19.9%, in 2011 due to an increase in the export duty rate. The effect of an increase in crude oil and refined products tariff rates was partially offset by a decrease in crude oil export volumes by 14.5% and refined products export volumes by 6.9%, compared to 2010.

In December 2010, we began applying a reduced export duty rate for crude oil produced from the Yu. Korchagin field in the Caspian Sea. However, due to the relatively small amount of crude oil exported from that field, the effect of this incentive on our 2011 and 2010 financial results was insignificant.

Beginning in 2011, excise tax rates on refined products in Russia were increased and tied to the ecological class of fuel. Despite the fact that the Group produces high quality ecological motor fuel, which is subject to lower excise tax rates compared to fuel of lower quality, average excise tax rates roughly doubled for the Group in 2011 as compared to 2010.

Exploration Expenses

2012 vs. 2011

Our exploration expenses decreased by $168 million, or 31.6%, in 2012. Dry hole costs totalled $127 million in 2012 and $417 million in 2011. At the same time, we significantly increased the amount of seismic work in Russia. In the fourth quarter of 2012, we charged to expense the cost of an exploratory well in Sierra Leone in the amount of $26 million. In the second quarter, we charged to expense the cost of an exploratory well in the Volga region of Russia in the amount of $50 million.

2011 vs. 2010

Our exploration expenses increased by $196 million, or 58.3%. Dry hole costs totalled $417 million in 2011, compared to $225 million in 2010. In 2011, dry hole costs were mostly related to our overseas projects, namely $181 million in Ghana, $149 million in Cote d'Ivoire, $27 million in Vietnam and $17 million in Kazakhstan. Dry hole costs in Russia included $28 million and $10 million related to projects in the Komi Republic and Western Siberia, respectively.

Gain (Loss) on Disposals and Impairments of Assets

2012 vs. 2011

In the second quarter of 2012, the Group recognized a gain of $178 million from the sale of 1.5% (10% of our share) in KPO to a state-owned KazMunayGaz. The tax effect amounted to $148 million of income tax expense.

Losses on disposals and impairments of assets also includes the financial result from disposals of a number of non-core assets and individually insignificant impairments of non-performing business units.

2011 vs. 2010

Loss on disposals and impairments of assets for 2011 mainly included an impairment loss related to certain upstream and other assets of NMNG in the amount of $1,261 million. Please refer to "*—Impairment of assets in NMNG*". Additionally, in 2011, we recognized an impairment loss of $175 million for our international refining, marketing and distribution assets.

Other Non-Operating Income (Expense)

In 2011, other non-operating income included the effect of the recalculation of the extraction tax incentive by certain Group companies for prior periods in the total amount of $433 million.

Income Taxes

2012 vs. 2011

Our total income tax expense decreased by $495 million, or 15.0%, compared to 2011. At the same time, our income before income tax increased by $604 million, or 4.6%, in 2012.

In 2012, our effective income tax rate was 20.4%, compared to 25.1% in 2011. The maximum statutory rate in Russia is 20%. Quarterly deviations of the effective income tax rates from the maximum statutory rate may happen due to currency translation losses and gains reported by Russian subsidiaries, which decrease or increase taxable income in the respective periods. The high level of the effective income tax rate in 2011 was mostly due to a $1,261 million non-deductible impairment loss in NMNG.

2011 vs. 2010

In 2011, our total income tax expense increased by $942 million, or 40.1%. At the same time, our income before income tax increased by $1,649 million, or 14.4%.

In 2011, our effective income tax rate was 25.1%, compared to 20.5% in 2010.

Reconciliation of Net Income to EBITDA

	Year ended 31 December		
	2012	**2011**	**2010**
	(millions of U.S. dollars)		
Net income attributable to OAO LUKOIL	**11,004**	**10,357**	**9,006**
Add back:			
Income tax expense	2,798	3,293	2,351
Depreciation, depletion and amortisation	4,832	4,473	4,154
Interest expense	538	694	712
Interest and dividend income	(257)	(211)	(174)
EBITDA	**18,915**	**18,606**	**16,049**

EBITDA is non-U.S. GAAP financial measure. See "*Presentation of Financial and Other Information—Non-U.S. GAAP Financial Measures*" for more information.

Liquidity and Capital Resources

	Year ended 31 December		
	2012	**2011**	**2010**
	(millions of U.S. dollars)		
Net cash provided by operating activities	18,997	15,514	13,541
Net cash used in investing activities	(13,216)	(9,013)	(7,296)
Net cash used in by financing activities	(5,680)	(6,023)	(6,146)

Operating Activities

Our primary source of cash flow is funds generated from our operations. During 2012, cash generated from operating activities amounted to $18,997 million, which is 22.5% more than in 2011. This increase was largely a result of a decrease in working capital by $2,474 million, compared to 1 January 2012.

The decrease in working capital was mainly caused by:

- $1,711 million net decrease in trade accounts receivable and payable
- $194 million net decrease in taxes receivable and payable
- $686 million net decrease in other assets and liabilities

These positive factors were partly offset by a $126 million increase in inventories.

During 2011, cash generated from operating activities was $15,514 million, an increase of 14.6% compared to 2010. The increase was primarily due to an increase in sales revenues. Our operating cash flows were also affected by an increase in working capital by $1,529 million, compared to 1 January 2011. The increase in working capital was largely the result of a $1,420 million increase in inventory and a $346 million net increase in tax accounts receivable and payable.

Investing Activities

In both 2012 and 2011, the increases in cash used in investing activities mainly resulted from increases in capital expenditures during the respective periods, as compared to the previous period.

In 2012, our total capital expenditures, including non-cash transactions, totalled $11,850 million, an increase of 39.5% compared to 2011. Total capital expenditures increased in 2011 by $1,648 million, or 24.1%, compared to 2010.

The following table sets forth our capital expenditures for the periods indicated.

	Year ended 31 December		
	2012	2011	2010
	(millions of U.S. dollars)		
Capital expenditures[1]			
Exploration and production			
Russia	7,014	5,084	3,911
International	1,888	1,545	997
Total exploration and production	8,902	6,629	4,908
Refining, marketing and distribution			
Russia	1,510	1,030	945
International	568	324	375
Total refining, marketing and distribution	2,078	1,354	1,320
Chemicals			
Russia	62	55	27
International	28	34	49
Total chemicals	90	89	76
Power generation and distribution	503	196	420
Other	277	224	120
Total capital expenditures	**11,850**	**8,492**	**6,844**

(1) Including non-cash transactions and prepayments.

During 2012, capital expenditures in exploration and production segment increased by $2,273 million, or 34.3%, compared to 2011. In Russia, the increase was due to the development of the V. Filanovsky oil field on the Caspian seashore and increased production drilling in Western Siberia. Internationally, in 2012, we increased investments in developing our projects in Iraq and Uzbekistan.

In 2012, the increase in our refining, marketing and distribution capital expenditures outside of Russia was mainly due to the construction of a heavy residue processing complex at our Bulgarian refinery. In Russia, the increase was primarily due to the construction of a catalytic cracking unit and an extension of the reservoir park at our Nizhny Novgorod refinery, as well as the construction of hydro cracking unit at our refinery in Volgograd.

Capital expenditures in power generation sector in 2012 increased as a result of the fulfilment of our investment program, namely the construction of 235 MW combined cycle gas turbine in Astrakhan, which is scheduled for completion in the third quarter of 2013.

In 2011, capital expenditures in our exploration and production segment increased by $1,721 million, or 35.1%. In Russia, during 2011, we increased our investments in drilling, field development and construction of gas transportation facilities in Western Siberia and our petroleum gas utilization programs in Western Siberia and the Komi Republic. Our capital expenditures in 2011 were also affected by the appreciation of the Russian ruble. Internationally, in 2011, we significantly increased volumes of exploration drilling in Western Africa, namely Ghana, Cote d'Ivoire and Sierra Leone. Moreover, we significantly increased investments in our gas production projects in Uzbekistan.

The table below shows our exploration and production capital expenditures in promising new production regions.

	Year ended 31 December		
	2012	**2011**	**2010**
	(millions of U.S. dollars)		
Yamal	476	372	162
Caspian region[1]	1,425	555	369
Ghana	13	216	87
Cote d'Ivoire	44	227	92
Iraq	924	203	172
Uzbekistan	477	480	286
Total	**3,359**	**2,053**	**1,168**

(1) Russian and international projects.

In the fourth quarter of 2012, we paid $836 million as a first 50% installment for the subsoil rights for the site that includes Imilorskoye, West Imilorskoye and Istochnoye fields in Western Siberia. The second 50% payment was made in January 2013. Also, we paid $58 million in 2012 for subsoil rights for the Verkhneyangoreyski site in the Komi Republic.

	Year ended 31 December		
	2012	**2011**	**2010**
	(millions of U.S. dollars)		
Acquisitions of subsidiaries and associates[1]			
Exploration and production			
Russia	200	252	–
International	22	500	922
Total exploration and production	222	752	922
Refining, marketing and distribution			
Russia	25	10	7
International	658	342	3
Total refining, marketing and distribution	683	352	10
Power generation and distribution	–	–	–
Other	–	–	–
Less cash acquired	(19)	(4)	–
Total acquisitions	**886**	**1,100**	**932**

(1) Including prepayments related to acquisitions and non-cash transactions.

In 2012, we acquired an additional 20% share interest in ISAB for approximately $621 million.

In 2011, we made a final payment of $500 million in connection with the acquisition of LUKARCO, a payment of $342 million for an additional 11% interest in ISAB and a payment of $153 million for a 25.1% interest in Bashneft-Polus.

Financing Activities

Our total debt as of 31 December 2012 amounted to $6,621 million, which represented a 27.2% decrease compared to 1 January 2012. Our net debt as of 31 December 2012 was $3,707 million, a decrease of 41.5%, compared to 31 December 2011.

In 2012, net movements of short-term and long-term debt generated an outflow of $1,266 million, compared to an outflow of $2,004 million in 2011 and an inflow of $35 million in 2010.

In the first quarter of 2012, we purchased stock of LUKOIL worth $128 million and in the second quarter of 2012, we spent $740 million for the purchase of equity-linked notes. In 2011, we made an advance

payment of $1,760 million for purchase of equity-linked notes. We also made purchases of non-controlling interests in 2012 in the aggregate amount of $635 million.

Our total debt as of 31 December 2011 amounted to $9,092 million, which represented an 18.8% decrease compared to 1 January 2011. Our net debt as of 31 December 2011 was $6,339 million, a decrease of 28.2%, compared to 31 December 2010.

Contractual Obligations, Other Contingencies and Off Balance Sheet Arrangements

Capital Commitments and Contractual Obligations

Under the terms of existing exploration and production license agreements in Russia, we are required to fulfil certain obligations related to, among others, oil and gas exploration, wells drilling, fields development. The Group also has commitments to reach a defined level of extraction on its fields. Our management believes that our approved annual capital expenditure budgets fully cover all the requirements of our license obligations.

In 2012, we entered into a construction agreement for a heavy-residue hydrocracking complex at our refinery in Bulgaria (LUKOIL-Neftochim Bourgas AD). Commissioning of the complex is expected to occur in 2015. The amount of capital commitment under this agreement is approximately $1.1 billion.

We also have commitments for capital expenditure contributions in the amount of $363 million related to various production sharing agreements over the next 25 years.

We signed a strategic agreement for the ongoing provision of construction, engineering and technical services with OAO "Globalstroy-Engineering". The volume of these services is based on our capital construction programme, which is re-evaluated on an annual basis. We estimate the amount of capital commitments under this agreement for 2013 to be approximately $232 million.

We also signed a number of agreements for the years 2012-2015 for the construction of offshore platforms in the Caspian Sea. We estimate the amount of capital commitments under these agreements to be approximately $1,346 million.

We have a commitment to execute a capital construction programme for our power generation segment. Under the terms of this programme, power plants with a total capacity of 890 MW should be constructed. Currently, the Group is approving certain amendments to the capital construction programme, including an extension through the end of 2014. As of 31 December 2012, we estimate the amount of this commitment to be approximately $303 million.

The following table displays our total contractual obligations and other commitments as of 31 December 2012:

(millions of U.S. dollars)	Total	2013	2014	2015	2016	2017	After
On balance sheet							
Short term debt	**126**	126	–	–	–	–	–
Long-term bank loans and borrowings	**867**	280	194	180	129	46	38
Long-term non-bank loans and borrowings	**420**	19	400	–	–	–	1
6.375% Non-convertible U.S. dollar bonds, maturing 2014	**898**	–	898	–	–	–	
2.625% Convertible U.S. dollar bonds, maturing 2015	**1,436**	–	–	1,436	–	–	–
6.356% Non-convertible U.S. dollar bonds, maturing 2017	**500**	–	–	–	–	500	–
7.250% Non-convertible U.S. dollar bonds, maturing 2019	**596**	–	–	–	–	–	596
6.125% Non-convertible U.S. dollar bonds, maturing 2020	**998**	–	–	–	–	–	998
6.656% Non-convertible U.S. dollar bonds, maturing 2022	**500**	–	–	–	–	–	500
7.40% Russian ruble bonds, maturing 2013	**198**	198	–	–	–	–	–
Capital lease obligations	**82**	35	45	1	1	–	–
TOTAL	**6,621**	**658**	**1,537**	**1,617**	**130**	**546**	**2,133**
Off balance sheet							
Operating lease obligations	**475**	119	106	73	48	34	95
Capital commitments in PSAs	**363**	177	18	18	18	18	114
Capital commitments in power generation segment	**303**	226	77	–	–	–	–
Capital commitments in LUKOIL-Neftochim Bourgas AD	**1,130**	818	308	4	–	–	–
Obligation under contract with OAO "Globalstroy-Engineering"	**232**	232	–	–	–	–	–
Obligation under contracts for the development of the V. Filanovsky oil field	**1,346**	126	1,220[(1)]	–	–	–	–

(1) Including amounts for 2014 and 2015.

The weighted-average interest rate on long-term bank loans and borrowings from third parties was 2.28% per annum as of 31 December 2012. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. As of 31 December 2012, approximately 33% of total long-term bank loans and borrowings from third parties were secured by export sales and property, plant and equipment. For more information on our long-term loans and borrowings, please see Note 12 ''*Long-term debt*'' to our annual consolidated financial statements.

Quantitative and Qualitative Disclosures about Market Risks

Interest Rate Risk

We are exposed to changes in interest rates, primarily associated with our variable rate short-term and long-term borrowings. We do not utilise any interest rate swaps or other derivatives to hedge against the risk of changes in interest rates on our variable rate debt. As of 31 December 2012, our long-term borrowings that were sensitive to changes in interest rates totalled $880 million. For more detail on long-term borrowings, please refer to Note 12 ''*Long-term debt*'' to our annual consolidated financial statements. Utilising the actual interest rates in effect and the balance of our variable rate debt as of 31 December 2012, and assuming a 10% change in interest rates and no change in the balance of debt outstanding, the potential effect on our annual interest expense would not be material to our results of operations.

Foreign Currency Risk

The countries in which our principal operations are located have been subject to hyperinflation, and during the last 10 years, the local currencies have been subject to large devaluations. As a result, we are subject to the risk that the local currencies may suffer future devaluation that may subject us to losses, depending on our net monetary position. Because we have operations in a number of countries, we are required to conduct business in a variety of foreign currencies and, as a result, we are subject to foreign exchange rate risk on cash flows related to sales, expenses, financing and investment transactions. The impacts of fluctuations in foreign currency exchange rates on our geographically diverse operations are varied. We recognised a net foreign currency translation loss of $512 million in 2012, a loss of $301 million in 2011 and a loss of $122 million in 2010.

We currently do not comprehensively hedge our exposure to foreign currency rate changes, although we selectively hedge certain foreign currency exchange rate exposures, such as firm commitments for capital projects or local currency tax payments and dividends. Our foreign currency risk is mitigated in part because a substantial part of our revenue is denominated in U.S. dollars or, to some extent, linked to oil prices quoted in U.S. dollars. Additionally, we keep part of our cash and cash equivalents in U.S. dollars in order to manage against the risk of ruble devaluation.

Commodity Derivative Instruments

We participate in certain petroleum products marketing and trading activity outside of our physical crude oil and petroleum products businesses. Our derivative activity is limited to these marketing and trading activities and hedging of commodity price risks. Currently, this activity involves the use of futures and swap contracts together with purchase and sale contracts that qualify as derivative instruments. We maintain a system of controls over these marketing and trading activities that includes policies covering the authorisation, reporting and monitoring of derivative activity. The fair value of derivative contracts outstanding and recorded on the consolidated balance sheets was a net liability of $42 million as of 31 December 2012, a net liability of $24 million as of 31 December 2011 and a net liability of $40 million as of 31 December 2010. Financial results from commodity derivatives are included in the consolidated statements of comprehensive income in ''Cost of purchased crude oil, gas and products''. Realised losses were $300 million and unrealised losses were $21 million for the year ended 31 December 2012. Realised losses were $667 million and unrealised gains were $10 million for the year ended 31 December 2011. Realised losses were $235 million and unrealised gains were $3 million for the year ended 31 December 2010.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to select appropriate accounting policies and to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. See Note 2 ''*Summary of significant accounting policies*'' to our annual consolidated financial statements for descriptions of the Group's major accounting policies. Certain of these accounting policies involve

judgments and uncertainties to such an extent that there is a reasonable likelihood that materially different amounts would have been reported under different conditions, or if different assumptions had been used.

Business Combinations

Purchase Price Allocation

Accounting for the acquisition of a business requires the allocation of the purchase price to the various assets and liabilities of the acquired business. For most assets and liabilities, purchase price allocation is accomplished by recording the asset or liability at its estimated fair value. The most difficult estimations of individual fair values are those involving property, plant and equipment and identifiable intangible assets. We use all available information to make these fair value determinations and, for major business acquisitions, typically engage an outside appraisal firm to assist in the fair value determination of the acquired long-lived assets. We have, if necessary, up to one year after the acquisition closing date to finish these fair value determinations and finalise the purchase price allocation.

Principles of Consolidation

Our consolidated financial statements include the financial position and results of LUKOIL, controlled subsidiaries of which LUKOIL directly or indirectly owns more than 50% of the voting interest, unless non-controlling 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 LUKOIL 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 LUKOIL directly or indirectly owns more than 50% of the voting interest but where non-controlling 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.

Revenue Recognition

Revenues from the production and sale of crude oil and petroleum products are recognised 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 recognised at the fair market value of the crude oil and petroleum products sold.

Successful Efforts Accounting for Oil and Gas Activities

Accounting for oil and gas activities is subject to special accounting rules that are unique to the oil and gas industry. Property acquisitions, successful exploratory wells, all development costs (including development dry holes and the Group's share of operators' expenses during the development stage of production sharing and risk service contracts) and support equipment and facilities are capitalised. Artificial stimulation and well work-over costs are included in operating expenses as incurred.

Property Acquisition Costs

For individually significant undeveloped properties, management periodically performs impairment tests based on exploration and drilling efforts to date. For undeveloped properties that individually are relatively small, management exercises judgment and determines a periodic property impairment charge as required that is reported in loss on disposals and impairments of assets.

Exploratory Costs

For exploratory wells, drilling costs are temporarily capitalised, or ''suspended'', on the balance sheet, pending a judgmental determination of whether potentially economic oil and gas reserves have been discovered by the drilling effort. If a judgment is made that the well did not encounter potentially economic oil and gas quantities, the well costs are expensed as a dry hole and are reported in exploration expense. Exploratory wells that are judged to have discovered potentially economic quantities of oil and gas and that are in areas where a major capital expenditure would be required before production could begin, remain capitalised on the balance sheet as long as additional exploratory appraisal work is under way or firmly planned. There is no periodic impairment assessment of suspended exploratory well costs.

Management continuously monitors the results of the additional appraisal drilling and seismic work and expenses the suspended well costs as dry holes when it judges that the potential field does not warrant further exploratory efforts in the near term.

Other exploratory expenditures, including geological and geophysical costs are expensed as incurred.

Proved Oil and Gas Reserves

Due to the inherent uncertainties and the necessarily limited nature of reservoir data, estimates of reserves are inherently imprecise, require the application of judgment and are subject to change as additional information becomes available. The estimates are made using all available geological and reservoir data as well as historical production data. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance or a change in the Group's plans.

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas liquids including condensate and natural gas that geological and engineering data demonstrate with reasonable certainty can be recovered in future years from known reservoirs under existing economic and operating conditions (i.e., prices and costs as of the date the estimate is made). Reserves are considered proved if they can be produced economically as demonstrated by either actual production or conclusive formation tests. Proved reserves do not include additional quantities of oil and gas reserves that may result from applying secondary or tertiary recovery techniques not yet tested and determined to be economic. The proved reserves include volumes which are recoverable up to and after licence expiry dates. Proved developed reserves are the quantities of proved reserves expected to be recovered through existing wells with existing equipment and operating methods.

Management has included within proved reserves significant quantities which the Group expects to produce after the expiry dates of certain of its current production licences in the Russian Federation. The Subsoil Law of the Russian Federation states that, upon expiration, a licence is subject to renewal at the initiative of the licence holder provided that further exploration, appraisal, production or remediation activities are necessary and provided that the license holder has not violated the terms of the licence. Since the law applies both to newly issued and old licences and the Group has currently renewed over 50% of its licences, management believes that licences will be renewed upon their expiration for the remainder of the economic life of each respective field.

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 amortisation, 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 recognised 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.

Deferred Income Taxes

Deferred income tax assets and liabilities are recognised 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 recognised as profit or loss in the reporting period which includes the enactment date.

The ultimate realisation 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 realisability of deferred income tax assets, management considers whether it is more likely than not that the deferred income tax assets will be realised. 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 realised. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Asset Retirement Obligations

Under various laws, contracts, permits and regulations, we have legal obligations to remove tangible equipment and restore the land or seabed at the end of operations at production sites. Our largest asset retirement obligations relate to wells and oil and gas production facilities and pipelines. We record the fair value of liabilities related to our 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. Estimating the future asset retirement obligations costs necessary for this accounting calculation involves significant estimates and judgments by management. Most of these obligations are many years in the future and the contracts and regulations often have vague descriptions of what removal practices and criteria will have to be met when the removal event actually occurs. Asset removal technologies and costs are constantly changing, as well as political, environmental, safety and public relations considerations.

Contingencies

Certain conditions may exist as of balance sheet dates that may result in losses, but the impact of which will only be resolved when one or more future events occur or fail to occur. We are required to both determine whether a loss is probable based on judgment and interpretation of laws and regulations and determine whether the loss can be reasonably estimated. If our assessment of a contingency indicates that it is probable that a material loss will arise, and the amount of the liability can be estimated, then the estimated liability is accrued and charged as profit or loss. If our assessment indicates that a potentially material loss is not probable, but is only reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability is disclosed in the notes to our consolidated financial statements. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. Our management continually monitor known and potential contingent matters and make appropriate charges as profit or loss when warranted by circumstance.

Use of Derivative Instruments

Our derivative activity is limited to certain petroleum products marketing and trading outside of our 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. We account for these activities under the mark-to-market methodology in which the derivatives are revalued each accounting period. Resulting realised and unrealised gains or losses are presented as profit or loss on a net basis. Unrealised gains and losses are carried as assets or liabilities on the consolidated balance sheet.

Changes in accounting policy

In accordance with Federal Law No. 208-FZ ''On Consolidated Financial Reporting'' as of 27 July 2010, beginning in 2015, we will prepare our consolidated financial statements under International Financial Reporting Standards (IFRS) and not U.S. GAAP. The process of transitioning from U.S. GAAP to IFRS is currently underway.

In September 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-08, ''*Testing Goodwill for Impairment*'', which allows an entity to use a qualitative approach to test goodwill for impairment. This ASU permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount and hence whether it is necessary to perform the two-step goodwill impairment test as required by the provisions of Topic 350 of the Codification. ASU No. 2011-08 is effective for annual and interim goodwill impairment tests performed for the fiscal years beginning after December 15, 2011. The Group adopted the requirements of ASU No. 2011-08 starting from the first quarter of 2012. This adoption did not have a material impact

on the Group's results of operations, financial position or cash flows and did not require additional disclosures.

In June 2011, the FASB issued ASU No. 2011-05, ''*Presentation of comprehensive income*'', which amends Topic 220 of the Codification. This ASU increases the prominence of other comprehensive income in financial statements. Under this ASU, an entity has the option to present the components of net income and comprehensive income in either one or two statements. The ASU eliminates the option in US GAAP to present other comprehensive income in the statement of changes in equity. ASU No. 2011-05 is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011 (except those reclassification adjustments deferred by ASU No. 2011-12) and should be applied retrospectively. The Group adopted the requirements of ASU No. 2011-05 starting from the first quarter of 2012. This adoption changed the presentation of net and comprehensive incomes and stockholders' equity, but did not have any impact on the Group's results of operations, financial position or cash flows.

In May 2011, the FASB issued ASU No. 2011-04, ''*Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRSs*'', which amends Topic 820 of the Codification. This ASU provides guidance for fair value measurements and disclosure requirements and clarifies the Board's intent about the application of existing fair value measurement requirements. The new standard does not extend the use of fair value but, rather, provides guidance about how fair value should be applied where it already is required or permitted under US GAAP. ASU No. 2011-04 is effective for public entities during interim and annual periods beginning after December 15, 2011 and should be applied prospectively. The Group adopted the requirements of ASU No. 2011-04 starting from the first quarter of 2012. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

In April 2011, the FASB issued ASU No. 2011-02, ''*A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*'', which amends Topic 310 of the Codification. This ASU provides additional guidance in considering whether a restructuring constitutes a troubled debt restructuring and helps creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties. ASU No. 2011-02 is effective starting from the first interim or annual period beginning on or after June 15, 2011. The Group adopted the requirements of ASU No. 2011-02 starting from the third quarter of 2011. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows and did not require additional disclosures.

Recent Accounting Pronouncements

In December 2011, the FASB issued ASU No. 2011-11, ''*Disclosures about Offsetting Assets and Liabilities*''. This ASU requires entities to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The scope includes derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. ASU No. 2011-11 is effective for annual reporting periods on or after 1 January 2013, and interim periods within those annual periods, and should be applied retrospectively. We are evaluating the effect of the adoption of ASU No. 2011-11 and do not expect any material impact on its results of operations, financial position or cash flows.

In January 2013, the FASB issued ASU No. 2013-01 ''*Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*'', which clarifies that ordinary trade receivables and receivables are not in the scope of ASU No. 2011-11. The Group is evaluating the effect of the adoption of ASU No. 2011-11 and does not expect any material impact on its results of operations, financial position or cash flows.

BUSINESS

Overview

We are one of the largest publicly traded oil and gas companies in the world in terms of proved crude oil and gas reserves and we are the second largest producer of crude oil in Russia. We carry out geological exploration work in 11 countries and have proved oil reserves in seven countries (and proved gas reserves in five countries).

As of 31 December 2012, as audited by Miller and Lents, our proved crude oil reserves were approximately 13,381 mmbls (1,814 million tonnes) and our proved gas reserves were 23,487 bcf (3,915 mmboe), for an aggregate of 17,296 mmboe of proved hydrocarbon reserves. As of the same date, our probable crude oil reserves were 5,933 mmbls (804 million tonnes) and our probable gas reserves were 10,738 bcf (1,790 mmboe), for an aggregate of 7,723 mmboe of probable hydrocarbon reserves. For more information about these estimates, see ''*Presentation of Reserves and Resources*''.

Our total revenues were $139,171 million in 2012, compared to $133,650 million in 2011 and $104,956 million in 2010. Our net income in 2012 was $11,004 million, compared to $10,357 million in 2011 and $9,006 million in 2010.

We currently produce oil in Russia, Kazakhstan, Uzbekistan, Azerbaijan and Egypt. In 2012, we produced (including our share in equity affiliates) 677.0 mmbls (91.1 million tonnes) of crude oil and natural gas liquids, including 633.9 mmbls (85.5 million tonnes) in Russia and 43.1 mmbls (5.6 million tonnes) from our international projects. Our domestic crude oil production accounted for 16.3% of all Russian crude oil production based on the aggregate Russian crude oil production for 2012 published by the Russian Ministry of Energy. We produce gas in Russia, Kazakhstan, Uzbekistan and Azerbaijan. In 2012, we also produced 703.9 bcf (117.3 mmboe) of gas available for sale, including 480.1 bcf (80.0 mmboe) in Russia and 223.8 bcf (37.3 mmboe) obtained from various international projects.

We and our equity affiliates have oil refineries in Russia, Ukraine, Romania, Bulgaria, Italy and The Netherlands. We refined 484.3 mmbls (66.1 million tonnes) of raw materials in 2012 at our own and affiliated refineries, including 325.7 mmbls (44.4 million tonnes) at our Russian refineries and 158.6 mmbls (21.7 million tonnes) at our international refineries (including our shares in the ISAB and Zeeland refinery complexes). We also refined 19.5 mmbls (2.7 million tonnes) of crude oil under contracts with international third party refineries. In 2012, we sold 254.1 mmbls (34.7 million tonnes) of crude oil and 92.5 million tonnes of refined products to customers outside of Russia, including sales to CIS countries and exports to international markets. Our sales of crude oil and refined products to customers outside of Russia accounted for 88.4% and 81.9% of our total sales of crude oil and refined products, respectively, in 2012.

Domestic Upstream Operations

As of 31 December 2012, approximately 95% of our proved crude oil reserves were located in Russia. Our largest crude oil reserves are located in Western Siberia, including in the Bolshekhetskaya depression in the Yamal-Nenets Autonomous District, which had proved oil reserves of 7,327 mmbls (1.0 billion tonnes) – 55% of our total proved oil reserves worldwide – as of 31 December 2012. In Russia, the Group's primary focus areas for geological exploration are in the Timan-Pechora, Western Siberia and North Caspian Sea regions. We continue to focus on increasing the efficiency of our geological exploration projects and supporting growth of our reserves by using the latest geophysical methods and adhering to best practices and international operating standards throughout all stages of our work.

In 2012, we brought seven new oil fields and one new gas field into production (compared with four oil and gas fields in 2011). In December 2012, we won an auction for the rights to the Imilorskoye group of fields, which includes the Imilorskoye, West Imilorskoye and Istochnoye oil fields. The oil fields have oil in place and recoverable oil reserves totalling, respectively, 6,270.8 mmbls (855.5 million tonnes) and 1,419.8 mmbls (193.7 million tonnes) in the C1 and C2 categories combined. Production is expected to commence in the Imilorskoye field in 2015.

Approximately 75% of our proved natural gas reserves were in Russia as of 31 December 2012. Our core domestic gas producing area is the Bolshekhetskaya depression in Western Siberia. Our production of gas available for sale from this field was 283.9 bcf (47.3 mmboe) in 2012, which comprised 59.1% of our total production of gas in Russia.

International Upstream Operations

As of 31 December 2012, our international assets accounted for approximately 5% of our proved crude oil reserves and 25% of our proved gas reserves. Our primary international areas of focus are the continental shelf of West Africa (Ghana, Cote d'Ivoire and Sierra Leone), Iraq, Uzbekistan and Kazakhstan. In 2012, we entered into the active phase of development of the West Qurna-2 oil field in Iraq, which is one of the largest oil fields discovered in the world, with estimated recoverable oil reserves of 12,900 mmbls (1.8 billion tonnes).

We continue to focus on expanding our international reserves through enhanced oil recovery technologies and strategic acquisitions.

In November 2012, we acquired a 25% interest in the geological exploration, development and production project at the SL-4B-10 offshore block in the waters of the Republic of Sierra Leone in the Gulf of Guinea. In 2011, we acquired a 49% interest in an exploration and development contract at the SL-5-11 offshore deepwater block in the waters of the Republic of Sierra Leone from Oranto Petroleum.

Oil Refining

We own and operate four crude oil refineries in Russia, located in Perm, Volgograd, Ukhta and Nizhny Novgorod. These refineries, along with our mini-refineries in Urai and Kogalym in Russia, have a combined refining capacity of 45 million tonnes per year and refined a total of 44 million tonnes of crude oil in 2012. Outside of Russia, we own and operate refineries in Bulgaria, Romania and Ukraine, a 80% share in a refining complex in Italy (ISAB) and a 45% share in a refinery in The Netherlands (the Zeeland refinery), which have a combined refining capacity of 214.8 mmboe (29.3 million tonnes) per year and refined a total of 158.6 mmbls (21.7 million tonnes) of raw materials in 2012.

We have invested, and expect to continue to invest, substantial amounts on modernising our refineries.

In March 2010, we signed a multi-year agreement with Emerson Process Management to modernise 13 refining and petrochemical facilities in Russia and Eastern Europe. Under the agreement, which extends through 2014, Emerson Process Management will provide equipment, software and services as part of our enterprise-wide strategy to modernise process automation at our oil and gas refineries, petrochemical plants and related facilities. The refineries and petrochemicals plants that were expected to be upgraded under the agreement include Stavrolen and Saratovorgsintez in Russia, Neftochim Bourgas in Bulgaria and Karpatnaftochim Ltd. in Ukraine, as well as other facilities in Romania, Perm, the Volgograd region and the Komi Republic.

Beginning in July 2012, all of our refineries in Russia began exclusively manufacturing Euro-5 compliant gasoline. Euro-5 gasoline ensures so called 'clean exhaust', reducing emission of sulphur oxides and the products of incomplete combustion of aromatics.

In late 2012, a new diesel fuel hydrorefining unit with rated capacity of 3.0 million tonnes per year was put into operation at our refinery in Volgograd, which made all of the refinery's diesel fuel output compliant with Euro-5 standards. In February 2013, we began construction at our Volgograd refinery of a complex for the deep refining of vacuum gas oil, which is expected to allow the refinery to increase Euro-5 diesel fuel output by 1.8 million tonnes per year.

Gas Processing

Our downstream gas assets include four gas processing facilities in Russia: the Lokosovsky gas processing plant in the Khanty-Mansiysk Autonomous District, the Korobkovsky gas processing plant in the Volgograd region, the Permneftegazpererabotka gas processing plant in the Perm region and the Usinsk gas processing plant in the Komi Republic. These gas processing plants have a combined processing capacity of 129.0 bcf (21.5 mmboe) of gas and 1.2 million tonnes (8.6 mmboe) of natural gas liquids. Our gas processing plants processed 118.2 bcf (19.7 mmboe) of gas in 2012. The Lokosovsky gas processing plant is currently our main gas processing facility in Russia and has a gas processing capacity of approximately 75.5 bcf (12.6 mmboe) per year.

Crude Oil and Refined Product Sales

We sell the crude oil that we do not refine into the domestic and international markets. The international sales include exports from Russia and sales outside of Russia of crude oil produced from our international projects. We also undertake crude oil trading activity on international markets. In 2012, we sold 33.3 mmbls (4.5 million tonnes) of crude oil within Russia, or 11.6% of our total crude oil sales and 254.1 mmbls (34.7 million tonnes) of crude oil outside of Russia, or 88.4% of our total crude oil sales.

We sell a wide range of refined products, including gasoline, diesel fuel, fuel oil and lubricants. We sold a total of 113.0 million tonnes of refined products through wholesale and retail channels in 2012. Of this amount, 20.5 million tonnes, or 18.1%, of our refined products were sold in the domestic market, and 92.5 million tonnes, or 81.9%, were sold internationally.

Retail Marketing

As of 31 December 2012, we owned, leased and franchised 5,929 retail filling stations, including 2,368 in Russia, 503 in the CIS (excluding Russia), 212 in the Baltic countries, 2,421 in Europe and 425 in the United States. Most of the stations operate under the LUKOIL brand.

In 2012, we sold 8.9 million tonnes (64.9 mmboe) of refined products through our retail network in Russia and 6.6 million tonnes (48.1 mmboe) through our retail network outside Russia.

Petrochemicals

We continue to expand our petrochemicals business through our petrochemicals operations in Russia, Ukraine and Bulgaria. Currently, we own two petrochemicals plants in southern Russia and one in Ukraine. We also manufacture petrochemicals at our Bourgas refinery in Bulgaria. Together, these plants manufactured 0.9 million tonnes of petrochemicals in 2012 The Group makes pyrolysis and organic synthesis products, fuel fractions and polymers, and meets a large part of Russian domestic demand for several important chemicals as well as being a large-scale chemicals exporter to more than 30 countries.

Power Generation

We continue to develop the power generation sector of our business as part of our strategic development programme. We expect power generation to be an important factor in our long-term growth. This sector encompasses all aspects of the power generation business, including the delivery and marketing of electrical energy and of heat produced at power plants. The sector provides energy both for our own needs (to support our exploration and production and refining and marketing segments) and for external power and heat customers in parts of Russia. The Group has installed capacity of combined heating plants of 4.0 GW and installed heating capacity of 10,909 Gcal/hour in Russia. Our total output of electrical energy was 15.4 billion kWh in 2012. Our total output of heat energy was approximately 14.7 million Gcal in 2012.

Transportation

The main Russian crude oil production regions are remote from the main crude oil and refined products markets. We use the Transneft pipeline system, our own pipeline network, rail cars and tankers to transport the crude oil which we produce within Russia, for export outside of Russia and to our refineries. Our wholly-owned subsidiary LUKARCO has a 12.5% share in the Caspian Pipeline Consortium (CPC), a pipeline project in the Caspian region, which is used to transport crude oil produced in Kazakhstan to a marine terminal near the Russian city of Novorossiysk on the Black Sea for transport on to international markets. We also own export terminals at the port of Svetly in the Kaliningrad region (with a total annual capacity of 4.0 million tonnes), at Varandey on the Barents Sea (with a total annual capacity of 12.0 million tonnes) and at Vysotsk, Vyborg's outer harbour on the Baltic Sea (with a total annual capacity of 12.0 million tonnes). Most of our gas is sold at the wellhead and then transported through the UGSS, owned and operated by Gazprom, which is responsible for gathering, transporting, dispatching and delivering substantially all natural gas supplies in Russia. We transport our refined products primarily through a combination of Russia's state-owned refined products pipeline, Transnefteproduct, and by rail car, river-class tanker and truck. See "*Risk Factors—Risks Related to Our Business—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*".

In October 2012, we completed construction of the Kharyaga-Yu. Khylchuyu interfield oil pipeline, with an annual estimated capacity of 4.0 million tonnes. The oil pipeline is designed to transport commercial oil from the "Sever-TEK" (Kharyaga) terminal to the Yu. Khylchuyu oil delivery and acceptance station and subsequently deliver oil to the Yu. Khylchuyu-Varandey interfield oil pipeline.

In April 2012, our 50/50 Spanish joint venture opened a new oil product terminal with a total capacity of 35.31 mmcf (1.0 mmcm) in the port of Barcelona, Spain.

Strategy

Strategic Objectives

Our strategic objectives are sustained shareholder value growth, as well as ecological, industrial, social and personal safety.

We aim to increase our profitability by maintaining our sustainable and efficient growth of crude oil, natural gas and refined products production, replacing our reserves at competitive cost and maintaining returns on capital at levels comparable to our international peers.

We aim to create shareholder value through rigorous management of capital and costs, by increasing our valuation and paying fair dividends. We believe that one of the competitive advantages which allows us to achieve this strategic objective is our ability to identify and develop attractive upstream and downstream opportunities in our core Russian and international markets.

Execution of Our Strategy

In order to achieve our strategic objectives, we are in the process of implementing the following short-term and long-term development programmes. In December 2011, our Board of Directors approved a comprehensive strategic development programme for 2012 to 2021 to achieve our strategic objectives. As part of our strategic development programme for 2012 to 2021, we have focused on steps designed to deliver short- and medium-term benefits to our profitability and returns on investment and a long-term programme designed to sustain our growth and profitability. In addition, the strategic development programme for 2012 to 2021 aims to create value by improving free cash flow and increasing dividends and production by optimising capital expenditures.

Short-Term Development Programme for 2013 to 2015

Our development programme for the next three years is designed to take advantage of opportunities to increase profitability. We believe that the following initiatives will, upon successful implementation, have a positive impact on our profitability:

- *Increase international sales of refined products*. In 2012, we substantially increased international sales of refined products. In 2012, our revenue from the wholesale sales of refined products outside of Russia increased by $10.8 billion, or 16.6%, compared to 2011, mainly due to an increase in the sales volumes by 12.6%. We are continuing to take a number of steps to ensure that this trend continues, including increasing production of refined products at domestic refineries for export and seeking opportunities to increase both domestic and international refining capacities. As part of this strategy, in September 2012, we increased our stake in the ISAB refinery to 80%.
- *Maintain long-term sustainable growth of production*. As a part of our strategy to maintain the long-term sustainable growth of our hydrocarbon production, during the last several years, we have commenced production projects at a number of key fields, including the Kandym-Khauzak-Shady project in Uzbekistan, East Lambeyshorskoe and Bayandyskoye fields in Timan-Pechora and the Yu. Korchagin field in the North Caspian Sea. In addition, in December 2012, we won an auction for a subsoil use license for certain oil fields located in West Siberia, including the Imilorskoye, West Imilorskoye and Istochnoye fields. The fields are estimated to have oil in place and recoverable oil reserves totalling, respectively, 6,270.8 mmbls (855.5 million tonnes) and 1,419.8 mmbls (193.7 million tonnes) in the C1 and C2 categories combined, and we expect production to commence in 2015. By focusing our planned investment on these fields and by applying more advanced recovery techniques and reservoir management strategies, we have been able, and believe we will continue, to increase our production to levels sustainable for our long-term growth.
- *Apply enhanced oil recovery technologies in partnership with international oil field services companies*. We are working with oil field services companies to improve the efficiency of oil recovery in many of our fields. These efforts have already proved successful, and we have been able to steadily lower some of our production costs at fields where we have employed these techniques. We intend to apply these techniques to more fields in the future. We believe that successful application of advanced recovery techniques will help us to continue to increase production and flow rates while helping control costs.
- *Divest non-core businesses and reduce head count*. We continue to review our non-core activities, which include activities outside the exploration for and production of hydrocarbons and their refining, marketing and distribution, and will consider divesting non-core businesses as appropriate. As part of these efforts, we intend to reduce our head count where possible through divestment of

non-core businesses and natural attrition and retirements. Our average head count was approximately 112,000 employees in 2012, compared with approximately 120,300 employees in 2011.

- *Strengthen performance-related pay*. We intend to continue a trend of increasing the use of performance-related compensation across all levels of our Group to ensure a strong link between our financial results and the rewards for managers and employees.
- *Streamline our administration*. We continue to streamline our corporate structure to make it more manageable and efficient and to increase transparency for investors. We believe that more efficient management of our business and a leaner, more focused corporate structure will enable us to reduce costs.

Strategic Development Programme for 2012 to 2021

Our longer-term initiatives include the following:

- *Maximise net present value of our oil production through long-term reserves management*. Our approach to long-term reserves management takes into account not only total recoverable reserves of each field, but also focuses on utilising the most efficient methods of oil recovery to maximise the net present value of the oil recovered from our fields. We continue to utilise new technologies to maximise our oil recovery factor and lower extraction costs. We believe that, in the future, net present value management of oil recovery will allow us to manage our reserves and production in a manner that maximises return on capital employed.
- *Expand our upstream business in Russia*. We intend to increase the profitability of our exploration and production business by accelerating field development where appropriate, utilising improved recovery technology, developing satellite fields close to existing infrastructure to gain incremental reserves and production at a relatively low cost per barrel and continuing to shut in less productive wells. We are also focused on increasing our reserves and production of hydrocarbons in the Bolshekhetskaya depression and the Northern Caspian region. We believe that fields in these areas will have higher flow rates than our more mature reserves elsewhere in Russia, resulting in a lower per-barrel production cost. As part of this strategy, we plan to invest RUB 325 billion ($10.7 billion) in Russian offshore projects through 2021, of which approximately RUB 6 billion ($197.6 million) has already been invested. We are planning to start production on the V. Filanovsky field in the Caspian Sea in 2015. Development of natural gas at the Pyakyakhinskoye field in the Bolshekhetskaya depression began in 2010 and production is expected to commence in 2016.
- *Increase our international reserves and production through further development of our existing upstream assets and acquisitions*. We aim to increase our reserves and production from international operations to mitigate the risks of geographic concentration. Our primary international areas of focus are currently the non-Russian Caspian region, Central Asia and the Middle East. We believe that we can produce significant amounts of hydrocarbons from various projects in these regions in the medium term. We have also identified attractive opportunities in Africa, South America and elsewhere in the CIS. See ''*Risk Factors—Risks Relating to Business Operations in Emerging Markets*'' for more information on the risks associated with operating in these countries. See ''*—Recent Developments—Exploration and Production*''.
- *Develop our natural gas operations*. We believe that natural gas is becoming a more important source of energy in Europe and Russia. The objectives of our gas programme include accelerating the growth of our gas production in Russia and internationally and increasing our gas production so that it constitutes one-third of our total hydrocarbon production. We believe that increasing the proportion of natural gas operations in our business will give us more diversified sources of revenue and reduce exposure to crude oil price volatility. As part of the development of our natural gas operations, we plan to invest $678.5 million in 2013 in two projects in Uzbekistan, which are being implemented under PSAs for the Khauzak-Shady, Kandym and Kungradskiy and Southwest Gissar licence areas. As of 31 December 2012, our gas fields had proved gas reserves of 23,487 bcf (3,915 mmboe) and probable gas reserves of 10,738 bcf (1,790 mmboe).
- *Modernisation of refining capacities, primarily in Russia, to increase process complexity and light-oil products output*. We believe that we can improve our profitability by more effectively managing our hydrocarbon production chain, from crude oil production to retail marketing of our own refined products. We gradually expanded our capacity to refine our own crude oil primarily by expanding capacity of our existing refineries and also by seeking opportunities to acquire or construct

refineries. In recent years, we have completed modernisation programmes at our Nizhny Novgorod and Volgograd refineries, which have resulted in increased complexity at those refineries. We believe that the modernisation of our capacities has increased, and will continue to increase, process complexity and light-oil products output. We believe we have passed the peak years of investments in upgrading our refineries. Thus, we have reduced the share of our capital expenditures related to refining and marketing to 20%. We own a 45% interest in the Zeeland refinery in The Netherlands. Zeeland operates a refinery near Vlissingen, The Netherlands that has a total refining capacity of approximately 7.9 million tonnes per year and a hydro-cracking unit that has a capacity of approximately 3.4 million tonnes per year. Moreover, in September 2012, we increased our interest in the ISAB refinery complex in Priolo, Italy from 60% (we owned 49% prior to April 2011) to 80%, resulting in our obtaining control over ISAB. The ISAB refinery has a total refining capacity of 16.0 million tonnes per year.

- *Selective development of sales networks in priority regions, improved efficiency in traditional regions through asset modernisation and brand promotion*. We intend to expand our network of filling stations in Russia (primarily in the European Russia region) and internationally to increase our share of the retail market in key markets and regions.
- *Develop our petrochemicals operations*. We intend to develop our petrochemicals business primarily through obtaining of synergetic effect of the gas monetisation. Thus, our Strategic Development Programme provides for construction of a Caspian gas processing unit expanding pyrolysis capacities up to 950,000 tonnes. This will allow us to significantly increase profitability from gas production.
- *Develop our power generation business*. We continue to develop the power generation sector of our business as part of our strategic development programme and expect power generation to be an important factor in our long-term growth.

Recent Developments

Exploration and Production

On 1 April 2013, we entered into a purchase agreement to acquire 100% of Samara-Nafta from Hess Corp. and Simon Kukes, who holds a 10% stake in the company. Samara-Nafta is an oil producer operating in the Samara and Ulyanovsk regions of Russia. It currently produces 2.5 million tonnes of oil a year and has C1 and C2 category oil reserves estimated at 85 million tonnes. Samara-Nafta also owns rights to explore and develop more than 60 fields within 23 license areas. Total purchase price for the 100% interest is $2.05 billion. The sale is conditioned on approval by the Russian Federal Antimonopoly Service.

In December 2012, we won an auction for a subsoil use license for certain oil fields located in West Siberia, including the Imilorskoye, West Imilorskoye and Istochnoye fields located in the Khanty-Mansi Autonomous District (also known as Yugra). The site is estimated to have oil in place and recoverable oil reserves totalling, respectively, 6,270.8 mmbls (855.5 million tonnes) and 1,419.8 mmbls (193.7 million tonnes) in the C1 and C2 categories combined. The subsoil use license will be valid for 20 years. Under the terms of the bidding, we intend to send 30% of the oil produced to our Perm refinery. We paid 50.8 billion rubles (or approximately $1.67 billion) for the license. The Imilorskoye field is located in close proximity to LUKOIL's Tevlinsko-Russkinskoye field, the largest oil field currently under development by the Group. The area is close to all the necessary production and transportation infrastructure, which we believe will enable the Group to develop the oil fields quickly and efficiently. We currently expect production to commence at the Imilorskoye oil field in 2015.

In December 2012, we reached an agreement to sell our 70% interest in the Condor exploration and development project in Eastern Colombia to Omega Energy Columbia.

Oil Refining

In March 2013, we entered into an agreement with VETEK Group to sell our 99.58% interest in the Odessa refinery. We expect the sale to close by June 2013.

In February 2013, we began construction at our Volgograd refinery of a complex for the deep refining of vacuum gas oil, which is expected to allow the refinery to increase Euro-5 diesel fuel output by 13.2 mmbls (1.8 million tonnes) per year.

Power Generation

In January 2013, LUKERG Renew (a joint venture between LUKOIL-Ecoenergo and the Italian ERG Renew) acquired a 100% interest in the Romanian company Land Power SRL, which holds a license to build a wind power station, and the rights to a land plot with an area of approximately five sq. km located in the southeastern part of Romania. LUKERG Renew intends to begin construction in early 2013 of a wind power station consisting of 42 wind turbines with a total capacity of approximately 84 MW. Commercial operation is expected to commence in the first half of 2014. The wind power station is expected to generate more than 200,000 MWh per year. LUKERG Renew was founded in May 2011 to implement renewable energy projects. In 2012, the joint venture purchased a wind power station near Dobrich, Bulgaria with a rated capacity of 40 MW.

History

We were initially established in November 1991 as a state-owned oil concern, LangepasUraiKogalymneft (from which we derive the acronym LUK). In line with the Russian Government's privatisation plans, we were converted into a joint stock company in 1993, and the Russian Government transferred to us 51% of the voting shares of 15 enterprises. The Russian Government transferred an additional nine enterprises to us in 1995. In 1994, the Russian Government disposed of 51% of our share capital through an exchange of shares for vouchers tendered by private investors in Russia, sales to private investors in Russia for cash and the distribution of shares to employees. The Russian Government subsequently disposed of all our shares. The Russian Government sold its remaining 7.6% of our share capital to ConocoPhillips for $1.988 billion, or $30.76 per share, in a transaction which was completed in October 2004.

In 2010, ConocoPhillips announced plans to dispose of its stake in LUKOIL, which at the time constituted approximately 20% of LUKOIL's authorised and issued shares. In connection with this plan, in August 2010, LUKOIL repurchased approximately 7.6% of its shares, in the open market, for $3.44 billion. At the end of September 2010, LUKOIL, together with a group of investors, exercised an option to acquire an additional 5% from ConocoPhillips, for an aggregate purchase price of $2.38 billion. In February 2011, ConocoPhillips announced that it had completed the sale of its remaining holding in LUKOIL by selling in the open market. See "*Additional Information Regarding the Company—ConocoPhillips*" for more information.

Corporate Structure

Our domestic operations are conducted primarily through:

- three principal production subsidiaries: LUKOIL-Western Siberia, LUKOIL-PERM and LUKOIL-Komi. We own 100% of each of these companies;
- four principal refining subsidiaries: LUKOIL-Permnefteorgsintez (the Perm refinery), LUKOIL-Volgogradneftepererabotka (the Volgograd refinery), LUKOIL-Ukhtaneftepererabotka (the Ukhta refinery) and LUKOIL-Nizhegorodnefteorgsintez (the Nizhny Novgorod refinery). We own 100% of each of the Perm, Volgograd, Ukhta and Nizhny Novgorod refineries; and
- seven wholly-owned regional marketing and distribution subsidiaries.

Our international operations are conducted through two principal subsidiaries: LUKOIL Overseas Holding Ltd. (LUKOIL Overseas) and LUKOIL INTERNATIONAL GmbH (LUKOIL INTERNATIONAL). LUKOIL Overseas is responsible for our international exploration and production activities. LUKOIL INTERNATIONAL, which includes LITASCO SA (LITASCO), our wholly-owned trading subsidiary, is primarily responsible for our international refining, trading, distribution and retail marketing operations.

We divide our operations into four principal segments: exploration and production; refining and marketing; petrochemicals; and power generation. Each of these segments is discussed below. A fifth segment, which includes our other businesses such as finance and other activities, is not currently material to our results of operations.

Exploration and Production

Domestic Exploration and Production

Overview

We are one of the largest publicly traded oil and gas companies in the world in terms of proved crude oil and gas reserves and we are the second largest producer of crude oil in Russia. Our core producing areas

in Russia are Western Siberia, Ural, Volga and Timan-Pechora regions, which had, as of 31 December 2012, an aggregate of 15,460 mmboe of proved and 7,531 mmboe of probable hydrocarbon reserves including 843 mmboe of proved and 756 mmboe of probable hydrocarbon reserves in the Northern Caspian region. Our main exploration and production subsidiaries in Western Siberia are LUKOIL-Western Siberia, RITEK and LUKOIL-AIK. Our main exploration and production subsidiary in Ural region is LUKOIL-PERM. Our main exploration and production subsidiaries in Volga region are LUKOIL-Nizhnevolzhskneft and RITEK. In Timan-Pechora, our main exploration and production companies are LUKOIL-Komi and NMNG.

Licences

We must obtain licences from governmental authorities to explore for and produce oil and natural gas from our fields. As of 31 December 2012, we held 426 licences, of which 404 are either production or combined exploration and production licences and 22 are exploration licences. Exploration licences give the licence holder the non-exclusive right to explore for oil and natural gas in fields in a defined area and generally have a term of five years. These licences do not give us the right to extract any oil which we find. However, if our exploration efforts are successful and we find oil, natural gas or both, our exploration licences generally provide that we can obtain a production licence without auction or tender. Production licences generally have a term of 20 years and give us the exclusive right to extract oil and natural gas from fields in a defined area. Combined exploration and production licences permit both exploration and production and generally have a term of 25 years. Approximately 25% of our original licences, many of them relating to our Western Siberia operations, expire between 2013 and 2018. In 2004, legislation was passed that provides that licences are now granted for a time equal to the economic viability of the relevant field. Even though most of our licenses were issued prior to the enactment of this legislation, as long as we meet certain conditions, such as compliance with approved development programmes, we believe that each of our licences issued prior to this legislation can be extended, upon expiration, for the economic life of the relevant fields. As of 31 December 2012, 53% of our licences had been extended in accordance with this legislation. See "*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—Our Russian subsoil use licences may be terminated, suspended or limited prior to their expiration and we may be unable to obtain or maintain various permits or authorisations*" for more information on the risks relating to our licences. To date, none of our licence renewal applications have been denied. Our licences generally impose obligations on the licence holder to pay certain local and federal taxes and meet certain environmental requirements. Licences generally require the licence holder to make various commitments, including extracting an agreed target amount of reserves annually, conducting agreed minimum drilling levels and other exploratory and development activities, protecting the environment in the licence area from damage, providing certain progress reports and geological data to the relevant authorities and paying royalties and other amounts when due. Licences may be suspended or revoked if the licence holder fails to comply with their terms or to heed warnings from regulatory authorities. See "*Regulation of the Oil Industry in the Russian Federation—Subsoil Production Licences*".

Oil and Gas Reserves

At our request, Miller and Lents, independent reservoir engineers, has carried out an independent audit of our reserve estimates as of 31 December 2012. Unless otherwise specified, any information in this prospectus relating to our estimated crude oil and gas reserves is extracted or derived from the reserves reports prepared by Miller and Lents as of 31 December in each of 2012, 2011 and 2010. The information concerning our estimated crude oil and gas reserves as of 31 December 2012 included in this prospectus 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 report of Miller and Lents for the period indicated. For further information on the SEC standards, see "*Presentation of Reserves and Resources*".

The process of estimating oil reserves is complex and inherently uncertain. We must project production rates and timing of development and analyse available geological, geophysical, production, engineering and economic data for each reservoir. The extent, quality and reliability of this data can vary. The accuracy of reserves data is also a function of the quality and quantity of other available data, engineering and geological interpretation and judgment. See "*Summary Consolidated Financial and Other Information—Summary Reserves and Production Information*". See also "*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—The crude oil and natural gas reserves data in this prospectus are only estimates and our actual production, revenues and expenditures with respect to our reserves may differ materially from these estimates*".

The following table sets out our total crude oil and natural gas reserves as of 31 December 2012.

Reserve Category	Net reserves[(1), (2)] Oil (mmbls)	Gas (bcf)	Total (mmboe)
PROVED			
Developed:			
Russia	8,260	6,077	9,273
Eurasia (excluding Russia)	270	3,982	934
Africa	7	0.1	7
Middle East	0	0	0
South America	0	0	0
Undeveloped:			
Russia	4,500	11,415	6,403
Eurasia (excluding Russia)	177	2,013	513
Africa	0	0	0
Middle East	165	0	165
South America	1.5	0.1	1.5
Total Proved	**13,381**	**23,487**	**17,296**
PROBABLE			
Russia	5,851	10,512	7,603
Eurasia (excluding Russia)	23	226	61
Africa	0	0.1	0.01
Middle East	57	0	57
South America	2.5	0.1	2.5
Total Probable	**5,933**	**10,738**	**7,723**
POSSIBLE			
Russia	3,570	3,459	4,147
Eurasia (excluding Russia)	6.3	91	21
Africa	0	0.1	0.02
Middle East	51	0	51
South America	52	3	52
Total Possible	**3,680**	**3,552**	**4,272**

(1) Net oil and gas reserves include reserves that we do not beneficially own that are attributable to non-controlling interests in our consolidated subsidiaries and our equity share of reserves of our affiliated companies. For disclosure that excludes reserves attributable to non-controlling interests in our consolidated subsidiaries, see Table IV of "*Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)*", supplemented to our consolidated financial statements and notes thereto included elsewhere in this prospectus and presented in accordance with ASC No. 932 (formerly SFAS No. 69), "*Disclosures About Oil and Gas Producing Activities*".

(2) The above figures assume that all our production licenses in Russia will be renewed in the ordinary course and that our fields would be produced until the economic limit of production has been reached. See "*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—Our Russian subsoil use licences may be terminated, suspended or limited prior to their expiration and we may be unable to obtain or maintain various permits or authorisations*".

For further information on our estimated oil and gas reserves for the 2012 fiscal year, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Resource Base*".

The following tables set out our Russian crude oil and gas reserves broken down by our major geographic production areas as of 31 December in each of 2012, 2011 and 2010.

	Net Oil Reserves (mmbls)[(1)]								
	31 December 2012			31 December 2011			31 December 2010		
	Proved	*Probable*	*Proved plus Probable*	*Proved*	*Probable*	*Proved plus Probable*	*Proved*	*Probable*	*Proved plus Probable*
Western Siberia	7,327	3,876	11,203	7,326	4,631	11,957	7,458	4,366	11,824
Ural Region	2,088	467	2,555	2,064	479	2,543	1,940	415	2,355
Volga Region	745	513	1,258	749	462	1,211	623	527	1,150
Timan-Pechora	2,387	923	3,310	2,457	939	3,396	2,445	1,005	3,450
Other	213	72	285	221	57	278	221	48	269
Total for Russia	**12,760**	**5,851**	**18,611**	**12,817**	**6,568**	**19,385**	**12,687**	**6,361**	**19,048**

(1) Excluding reserves related to the Imilorskoye, West Imilorskoye and Istochnoye fields.

	Net Gas Reserves (bcf)								
	31 December 2012			31 December 2011			31 December 2010		
	Proved	*Probable*	*Proved plus Probable*	*Proved*	*Probable*	*Proved plus Probable*	*Proved*	*Probable*	*Proved plus Probable*
Western Siberia	14,308	7,823	22,131	14,310	7,785	22,095	14,418	8,103	22,521
Ural Region	774	429	1,203	630	446	1,076	558	443	1,001
Volga Region	1,908	2,105	4,013	1,348	1,623	2,971	1,332	2,664	3,996
Timan-Pechora	489	153	642	559	135	694	527	149	676
Other	13	2	15	18	3	21	12	1	13
Total for Russia	**17,492**	**10,512**	**28,004**	**16,865**	**9,992**	**26,857**	**16,847**	**11,360**	**28,207**

Production

The majority of our current production comes from our three core producing areas of Western Siberia, Timan-Pechora and Ural regions. In Russia, our major oil producing subsidiaries are OOO LUKOIL-Western Siberia, OOO LUKOIL-Komi and OOO LUKOIL-PERM. Our total Russian crude oil and natural gas liquids production (including our share in equity affiliates) was 633.9 mmbls (85.5 million tonnes) in 2012, representing 16.3% of Russia's total crude oil production in 2012, based on the aggregate Russian crude oil production published by the Russian Ministry of Energy. In addition, in 2012, we also produced 703.9 bcf (117.3 mmboe) of gas available for sale, including 480.1 bcf (80.0 mmboe) in Russia and 223.8 bcf (37.3 mmboe) obtained from various international projects.

As part of our strategy of cutting costs and maximising profitability, we are utilising more advanced reserves management techniques to increase production at our wells while shutting-in low producing wells. We believe that these techniques have contributed to stabilising our oil production in Western Siberia and will increase production efficiency at our oil fields. In addition, we believe that further production increases will come from Timan-Pechora and the Northern Caspian region, where relatively young reserves should provide higher flow rates. See ''—*Strategy*''.

In December 2012, we won an auction for a subsoil use license for certain oil fields located in West Siberia, including the Imilorskoye, West Imilorskoye and Istochnoye fields. The site is estimated to have oil in place and recoverable oil reserves totalling, respectively, 6,270.8 mmbls (855.5 million tonnes) and 1,419.8 mmbls (193.7 million tonnes) in the C1 and C2 categories combined. The Imilorskoye field is located in close proximity to LUKOIL's Tevlinsko-Russkinskoye field, the largest oil field currently under development by the Group. We currently expect production to commence at the Imilorskoye oil field in 2015.

The following table sets out our daily crude oil and natural gas liquids production data in our main production areas in Russia for each of the years ended 31 December 2012, 2011 and 2010.

	Daily Crude Oil and Natural Gas Liquids Production		
	For the year ended 31 December		
	2012	**2011**	**2010**
		(mbls/day)	
Western Siberia	1,014	1,014	1,051
Ural Region	289	275	267
Volga Region	82	74	68
Timan-Pechora	309	348	420
Other	38	39	40
Totals for Russia	**1,732**	**1,750**	**1,846**

Exploration Activities

Our exploration drilling in Russia totalled approximately 179,000 metres in 2012. In 2012, we discovered four new oil fields in Russia, one gas condensate field in Uzbekistan and 17 new deposits at previously discovered fields. The Group as a whole carried out 3,248 kilometres (2,017 miles) of 2D seismic exploration and 6,523 sq. km (2,516 sq. mi.) of 3D seismic exploration in 2012. In Russia, we carried out 3,248 kilometres (2,017 miles) of 2D seismic exploration and 4,477 sq. km (1,727 sq. mi.) of 3D seismic exploration in 2012. Our exploration costs in Russia totalled $525 million and our development costs in Russia totalled $6.5 billion in 2012. Exploration and production expenditures target the most promising exploratory prospects in the Caspian region, major development projects in the Timan-Pechora region and the maintenance and/or increase of production from existing fields in Western Siberia and other regions. We may revise these allocations to reflect the results of our exploration activities.

In the past, we have contracted predominantly with Eurasia Drilling Company Ltd. (EDC) to provide our Group with drilling services for our exploration and development projects. EDC entered into the onshore drilling and workover services business in December 2004 by acquiring substantially all of our onshore drilling assets and entered into the offshore drilling business by acquiring certain of our offshore drilling assets in December 2006. In late 2012, we entered into a memorandum of understanding with EDC for the provision of drilling capabilities for projects aimed at additional exploration and development of scavenger oil fields, including low-permeability reservoirs.

Western Siberia Operations

The Western Siberia basin is located approximately 1,900 kilometres (1,181 miles) east of Moscow and extends over an area of approximately 3.1 million sq. km (1.2 million sq. mi.). The basin is bordered on the west by the Ural Mountains, on the south by the Kazakhstan plate and on the east by the Siberian plate, is open to the north and extends under the Kara Sea. Our Western Siberia crude oil production operations accounted for approximately 58.7% of our domestic crude oil production in 2012. Our core gas producing area in Russia is the Bolshekhetskaya depression in the Yamal-Nenets Autonomous District in Western Siberia.

Our Western Siberia production operations are conducted principally through LUKOIL-Western Siberia, a wholly-owned consolidated subsidiary which has several crude oil production units and one natural gas production unit.

As of 31 December 2012, LUKOIL-Western Siberia had proved crude oil reserves of 7,327.2 mmbls (999.6 million tonnes) and probable crude oil reserves of 3,876.3 mmbls (528.8 million tonnes). As of the same date, LUKOIL-Western Siberia had proved natural gas reserves of 14,308.0 bcf (405.2 bcm) and probable natural gas reserves of 7,822.8 bcf (2,384.7 mmboe). LUKOIL-Western Siberia produced 327.6 mmbls (44.2 million tonnes) of crude oil in 2012.

We effectively own 73.05% of LUKOIL-AIK, which produces crude oil from the Kogalymskoye field in Kogalym in Western Siberia. As of 31 December 2012, our share of LUKOIL-AIK's proved crude oil reserves was 257.8 mmbls (35.2 million tonnes) and of LUKOIL-AIK's probable crude oil reserves was 111.5 mmbls (15.2 million tonnes). LUKOIL-AIK's production was 19.8 mmbls (2.6 million tonnes) of crude oil in 2012.

We also currently own 100% of RITEK, which has operations in both Western Siberia and the Volga region. As of 31 December 2012, RITEK had total proved crude oil reserves of 610.6 mmbls (83.3 million tonnes) and total probable crude oil reserves of 315.5 mmbls (43.0 million tonnes), of which RITEK's Western Siberian operations had proved crude oil reserves of 269.5 mmbls (36.8 million tonnes) and probable crude oil reserves of 175.8 mmbls (24.0 million tonnes). RITEK produced 16.9 mmbls (2.2 million tonnes) of crude oil in Western Siberia in 2012.

We sell gas that we produce in Russia to Gazprom or directly to Russian consumers. We cannot export gas that we produce in Russia because Gazprom has a monopoly on gas exports and owns the gas transportation system. In April 2005, through LUKOIL-Western Siberia's natural gas production unit, we started producing natural gas from the Nakhodkinskoye field in the Bolshekhetskaya depression. The Nakhodkinskoye field is our largest gas producing field, where we produced 283.9 bcf (47.3 mmboe) of natural gas in 2012. We sell substantially all of our production from the Nakhodkinskoye field in Western Siberia to Gazprom.

Ural and Volga Regions

Our production of crude oil in the Ural and Volga regions accounted for approximately 20.7% of our domestic production in 2012. The Volga-Ural basin is located approximately 800 kilometres (500 miles) southeast of Moscow and covers an area of approximately 700,000 sq. km (270,000 sq. mi.), which includes the Russian cities of Volgograd, Astrakhan, Perm and Samara. The basin is a regional uplift of the east-central part of Russia and is bounded on the east by the Ural Mountains, on the south by the Pre-Caspian basin, and on the west by the Baltic basin.

We have two principal wholly-owned production subsidiaries in the Volga and Ural regions: LUKOIL-PERM and LUKOIL-Nizhnevolzhskneft (which operates in the North Caspian region). As of 31 December 2012, these two companies had proved crude oil reserves of 2,556.0 mmbls (348.7 million tonnes) and probable crude oil reserves of 844.1 mmbls (115.2 million tonnes). These two companies and their subsidiaries and affiliates produced 100.7 mmbls (13.8 million tonnes) of crude oil in 2012.

As of 31 December 2012, RITEK's Volga operations had proved crude oil reserves of 341.1 mmbls (46.7 million tonnes) and probable crude oil reserves of 139.7 mmbls (19.1 million tonnes). RITEK's Volga operations produced 6.7 mmbls (0.9 million tonnes) of crude oil in 2012. In addition, RITEK's Volga operations had proved gas reserves of 182.4 bcf (30.4 mmboe) and probable gas reserves of 146.1 bcf (24.4 mmboe) as of 31 December 2012.

Northern Caspian Operations

We have licences to explore and develop certain areas of Southern Russia located in the northern part of the Caspian Sea. The licensed area comprises approximately 8,000 sq. km (3,089 sq. mi.). As of 31 December 2012, we had 1,719.1 bcf (286.5 mmboe) of proved and 1,955.3 bcf (325.9 mmboe) of probable gas reserves in the North Caspian region. Our proved crude oil reserves in the Northern Caspian region as of the same date were 556.0 mmbls (75.9 million tonnes), and our probable crude oil reserves were 430.0 mmbls (58.7 million tonnes).

We commenced production at the Yu. Korchagin field in the Caspian Sea in the second quarter of 2010. In 2012, we drilled four horizontal wells at Yu. Korchagin field in the Caspian Sea with initial flow rates between 4,000 and 10,000 barrels per day. Four additional horizontal wells are expected to be drilled at the Yu. Korchagin field by the end of 2013. Based on the results of a geological exploration conducted in 2012, we estimate recoverable oil reserves at the Yu. Korchagin field to increase by approximately 50%, or up to 360 mmbls, due to new drilling techniques.

In July 2003, we established a joint venture with Gazprom to develop the Tsentralnaya geological structure in the Russian sector of the Caspian Sea jointly with KazMunaiGaz, Kazakhstan's national oil company, as authorised by the Russian Government pursuant to a treaty between Russia and Kazakhstan. Our application for a licence is being considered. In May 2008, the joint venture drilled the first exploration well and discovered a major oil and gas condensate field at the Tsentralnaya structure. In addition, in March 2005, we signed an equal participation joint venture agreement with KazMunaiGaz forming Caspian Oil & Gas Company for the joint development of the Khvalynskoye field located in the northern part of the Caspian Sea. Each party has a 50% interest in the joint venture. Caspian Oil & Gas Company has prepared a feasibility study for a production sharing agreement in relation to the project, which is now pending review by the Russian authorities. We also own a 49.89% interest in the Caspian Oil Company (another 49.89% is owned by OAO Rosneft and the remaining 0.22% is owned by

Gazprom), which discovered a new field at the Zapadno-Rakushechnaya structure in the Northern Caspian region in 2008.

In 2005, we discovered a new field (named the V. Filanovsky field after a prominent Russian oilman) in the Northern Caspian region with potentially significant crude oil reserves. The field is a multilayer oil and gas condensate field in the Severny licence area in the northern part of the Caspian Sea. In December 2012, we began the assembly of a transport and installation barge for the construction of offshore platforms at the V. Filanovsky field. We expect to launch active field facility development in 2013. As of 31 December 2012, the V. Filanovsky field had proved crude oil reserves of 446.0 mmbls (60.8 million tonnes) and proved gas reserves of 249 bcf (41.5 mmboe). As of the same date, the V. Filanovsky field had probable crude oil reserves of 306 mmbls (41.7 million tonnes) and probable gas reserves of 172 bcf (28.7 mmboe).

Timan-Pechora Operations

Our production of crude oil in Timan-Pechora accounted for approximately 18.7% of our domestic production in the 2012. Our Timan-Pechora oil production operations include properties located in northern Russia in the Timan-Pechora basin, which is Russia's third largest region in terms of crude oil reserves. The Timan-Pechora basin is located approximately 1,100 kilometres (684 miles) northeast of Moscow in north-western Russia. The region covers approximately 777,000 sq. km (300,000 sq. mi.) and is a triangular-shaped basin bounded on the east by the Ural Mountains and on the southwest by the Timan ridge and extending beneath the Barents Sea to the north.

Currently, our key assets in Timan-Pechora are held through LUKOIL-Komi and NMNG. LUKOIL-Komi holds most of our exploration and development licences in the Komi Republic, which relate to fields generally located in the southern part of Timan-Pechora. As of 31 December 2012, LUKOIL-Komi and its subsidiaries had proved crude oil reserves of 2,103.1 mmbls (286.9 million tonnes) and probable crude oil reserves of 870.1 mmbls (118.7 million tonnes). LUKOIL-Komi and its subsidiaries produced 99.2 mmbls (13.7 million tonnes) of crude oil in 2012.

In December 2001, we formed NMNG as a wholly-owned subsidiary to hold our subsoil licences in the northern part of Timan-Pechora and in the Arkhangelsk region. In 2005, we entered into a joint venture with ConocoPhillips to develop oil fields located in the Northern Timan-Pechora region of Russia, pursuant to which we transferred a 30% interest in NMNG to ConocoPhillips. In 2008, NMNG commenced commercial production at the Yu. Khylchuyu oil field. Proved reserves of the Yu. Khylchuyu oil field were estimated to be approximately 505 mmboe at the end of 2008, but in 2010, production from the oil field began to sharply decline due to certain unexpected geological reasons. By December 2011, crude oil reserves had sharply decreased (to an estimated 142 mmbls). In 2011, we recognized an impairment loss on exploration and production assets and other assets of NMNG in the amount of $1,261 million. The impact on our net income (net of ConocoPhillip's share in the impairment loss and deferred tax assets write-off) amounted to $955 million in 2011 and the impact on our EBITDA for the year ended 31 December 2011 amounted to $883 million. In August 2012, we purchased ConocoPhillips' 30% joint venture interest in NMNG and certain related assets for $604 million. The acquisition increased our total ownership interest in NMNG to 100%.

International Exploration and Production

As part of our long-term corporate development programme, we aim to increase our reserves and production from international operations to mitigate the risks of geographic and transportation concentration and to diversify our cost base. Our primary international areas of focus are currently Iraq, Kazakhstan and Uzbekistan. We are currently participating in a total of 25 projects in 12 countries, including 15 geological exploration projects: three in Uzbekistan, three in Cote d'Ivoire, two in Romania and one project each in Egypt, Saudi Arabia, Ghana, Vietnam, Sierra Leone and Venezuela. For a discussion of recent developments involving our exploration projects, see "—*Recent Developments—Exploration and Production*".

Exploration drilling at our international projects totalled 22,000 metres (72,200 feet) in 2012. Our share of 3D seismic exploration in our international projects in 2012 was 2,046 sq. km (790 sq. mi.). In 2012, our exploration costs in our international projects totalled $144 million and our development costs in our international projects totalled $1,621 million.

The following tables set out our share of the crude oil and gas reserves as of 31 December 2012, 2011 and 2010 at each of our international projects with proved and/or probable reserves.

Area	Percentage Interest as of 31 December 2012	Our Share of Net Oil Reserves (mmbls)					
		31 December 2012		31 December 2011		31 December 2010	
		Proved	*Probable*	*Proved*	*Probable*	*Proved*	*Probable*
Azerbaijan							
Shakh-Deniz	10.0%	12.5	0.0	10.1	0.0	11.5	0.0
Kazakhstan							
Caspian Investments Resources	50.0%	71.3	4.0	88.3	6.1	93.7	6.0
Karachaganak	13.5%	109.7	0.0	144.0	0.5	166.0	0.3
Kumkol	50.0%	32.2	1.1	43.0	0.0	55.4	0.2
Tengiz and Korolevskoye	5.0%	197.3	17.3	205.7	17.9	205.8	11.0
Uzbekistan							
Kandym-Khauzak-Shady	100.0%	7.1	0.5	8.1	1.2	6.4	1.2
			4.0				
Gissar	100.0%	17.3	15.1	0.4	22.9	1.5	
Egypt							
Meleiha	24.0%	4.2	0.0	4.1	0.0	4.2	0.0
WEEM	100.0%	2.4	0.0	3.1	0.0	4.2	0.0
WEEM Extension	50.0%	0.1	0.0	0.2	0.0	–	–
Venezuela							
Junin-6	8.0%	1.5	2.5	–	–	–	–
Republic of Iraq							
West Qurna (Phase 2)	75.0%	165.4	56.6	–	–	61.9	92.2
Total International	–	**621.2**	**82.4**	**585.8**	**100.7**	**632.0**	**112.4**

Area	Percentage Interest as of 31 December 2012	Our Share of Net Gas Reserves (bcf)					
		31 December 2012		31 December 2011		31 December 2010	
		Proved	*Probable*	*Proved*	*Probable*	*Proved*	*Probable*
Azerbaijan							
Shakh-Deniz	10.0%	290.1	0.0	261.6	0.0	319.3	0.0
Kazakhstan							
Caspian Investments Resources	50.0%	21.1	0.7	30.8	1.5	24.7	0.6
Karachaganak	13.5%	827.2	0.0	1,147.9	11.9	1,367.4	0.006
Kumkol	50.0%	9.8	0.3	14.9	–	8.0	0.005
Tengiz and Korolevskoye	5.0%	239.7	15.1	245.1	16.5	252.2	4.6
Uzbekistan							
Kandym-Khauzak-Shady	100.0%	3,302.6	163.0	3,511.8	398.4	3,379.3	409.2
Gissar	100.0%	1,304.1	46.7	1,119.4	55.8	1,417.0	113.3
Venezuela							
Junin-6	8.0%	0.1	0.1	–	–	–	–
Total International	–	**5,994.7**	**226.0**	**6,331.4**	**484.2**	**6,768.0**	**527.8**

In the 2012, our international crude oil production (including our share in the crude oil produced by equity affiliates) accounted for approximately 6.3% of our total crude oil production and our international production of gas available for sale accounted for approximately 31.8% of our total production of gas available for sale.

The following tables set out our share of the average daily crude oil production and natural gas production available for sale in each of the years ended 31 December 2012, 2011 and 2010 at each of our international projects currently in production.

Area	Percentage Interest as of 31 December 2012	Our Share of Oil Production (mbls per day)(1) Year ended 31 December 2012	2011	2010
Azerbaijan				
Shakh-Deniz	10.0%	3.3	3.0	3.1
Kazakhstan				
Caspian Investments Resources	50.0%	28.3	30.1	31.1
Karachaganak	13.5%	31.0	32.3	31.6
Kumkol	50.0%	22.2	26.0	30.9
Tengiz and Korolevskoye	5.0%	26.4	28.2	27.3
Uzbekistan				
Kandym-Khauzak-Shady	100.0%	0.3	0.2	0.2
Gissar	100.0%	2.5	1.6	1.8
Egypt				
Meleiha	24.0%	1.4	1.1	1.4
WEEM	100.0%	2.5	2.6	3.3
WEEM Extension	100.0%	0.0	0.1	0.1
Republic of Iraq				
West Qurna (Phase 2)	75.0%	0.0	0.0	0.0
Total International	–	**117.9**	**125.2**	**130.8**

(1) Production figures include imputed volumes based on our share of revenues attributable to cost and profit of oil volumes and the weighted average commodity prices at the point of sale.

Area	Percentage Interest as of 31 December 2012	Our Share of Gas Production Available for Sale (mmcf per day)(1) Year ended 31 December 2012	2011	2010
Azerbaijan				
Shakh-Deniz	10.0%	56.3	49.6	52.7
Kazakhstan				
Caspian Investments Resources	50.0%	5.5	5.8	6.2
Karachaganak	13.5%	93.2	97.7	100.4
Kumkol	50.0%	7.0	5.2	4.7
Tengiz and Korolevskoye	5.0%	39.3	54.2	55.0
Uzbekistan				
Kandym-Khauzak-Shady	100.0%	314.4	254.0	256.9
Gissar	100.0%	95.7	0.4	0.0
Egypt				
Meleiha	24.0%	0.0	0.0	0.0
WEEM	100.0%	0.0	0.0	0.0
WEEM Extension	100.0%	0.0	0.0	0.0
Total International	–	**611.4**	**466.9**	**475.9**

(1) Production figures include imputed volumes based on our share of revenues attributable to cost and profit of oil volumes and the weighted average commodity prices at the point of sale.

Azerbaijan

Shakh-Deniz. The Shakh-Deniz gas field is the largest natural gas field in Azerbaijan. It is located in the South Caspian Sea and covers approximately 860 sq. km. We hold a 10% interest in a PSA to develop the Shakh-Deniz field. BP is the operator of the project and has a 25.5% interest in the PSA. Our other partners are Statoil (25.5%), TOTAL S.A. (10%), State Oil Company of the Azerbaijani Republic (SOCAR) (10%), National Iranian Oil Company (10%) and Turkish Petroleum (9%). Gas is currently produced under Stage-1 of Shakh-Deniz's development, which involves the production of 6,285.2 bcf (1,047.5 mmboe) of gas and 34 million tonnes (249.2 mmboe) of condensate. Gas from the project is supplied to the domestic market in Azerbaijan and is also shipped through the Baku-Tbilisi-Erzurum Pipeline (also known as the South Caucasus Pipeline) through Georgia to Turkey, while condensate is shipped through the Baku-Tbilisi-Ceyhan Pipeline.

Kazakhstan

We own one of our exploration and production projects in Kazakhstan through LUKARCO, a wholly-owned subsidiary. We participate in four of our projects in Kazakhstan through Caspian Investments Resources, in which we have a 50% interest. We participate in the Karachaganak consortium through our subsidiary, LUKOIL Overseas Karachaganak B.V. We participate in our remaining international projects through other subsidiaries.

Karachaganak. The Karachaganak field was discovered in 1979 and has been operating under a PSA by the Karachaganak Petroleum Operating (KPO) joint venture since 1997. The term of the PSA is 40 years. We have a 13.5% interest in the joint venture. Our partners are BG Group (29.25%), ENI (29.25%), Chevron (18%) and the Republic of Kazakhstan, which acquired a 10% stake in KPO in mid-2012 for $2.0 billion cash and $1.0 billion non-cash consideration, through its state-owned oil and gas company KazMunayGas, in connection with the settlement of a cost recovery dispute between the consortium members, KPO and the Republic of Kazakhstan in December 2011. BG Group and ENI jointly manage the operations for KPO.

LUKARCO. LUKARCO, which became a wholly-owned subsidiary in 2009, owns a 5% share in Tengizchevroil, a joint venture which develops the Tengiz and Korolevskoe fields in Kazakhstan and a 12.5% share in CPC, a pipeline project in the Caspian region which is used to transport crude oil produced in Kazakhstan to a marine terminal near the Russian city of Novorossiysk on the Black Sea for transport on to international markets. See "*—Transportation—Crude Oil Transportation—Pipelines*" for more information about our participation in the CPC.

Caspian Investments Resources. In 2005, we acquired 100% of Nelson Resources Limited (which we have since renamed Caspian Investments Resources), with substantial operations in Kazakhstan, for approximately $1,951 million. We currently hold a 50% interest in Caspian Investments Resources, following the sale of a 50% interest to Mittal Investments S.a.r.L (Mittal Investments) in April 2007. In September 2010, Mittal Investments sold its 50% interest in Caspian Investments Resources to China's China Petroleum and Chemical Corp (Sinopec). Through Caspian Investments Resources, we have an effective 25% interest in three projects in Kazakhstan (Arman, Buzachi Operating and Kazakhoil-Aktobe), an effective 50% interest in the KarakudukMunai project in Kazakhstan and an effective 12.5% interest in Zhambai Company (which has interests in the South Zhambai and South Zaburunye blocks in Kazakhstan's sector of the Caspian Sea).

Arman. Caspian Investments Resources holds a 50% interest in a PSA related to the development of the Arman field, giving us an effective 25% interest. Shell holds the remaining 50% interest in the PSA. The PSA has a term of 30 years. The Arman field is located approximately 200 kilometres north of the Caspian Sea port of Aktau in Kazakhstan. As of 31 December 2012, there were 15 oil production wells at the field.

Buzachi Operating. Caspian Investments Resources owns a 50% interest in a PSA related to the Buzachi Operating project to develop the North Buzachi field, giving us an effective 25% interest. CNPC International holds the remaining 50% interest in the PSA. The PSA has a term of 25 years. The North Buzachi field is located approximately 180 kilometres north of Aktau in Kazakhstan. In 2009, the North Buzachi project commissioned 130 new production wells. The project commenced drilling of horizontal wells, developed and approved the technological scheme of development and implemented a gas utilisation programme. There were 861 operating oil wells at the field on 31 December 2012.

KarakudukMunai. Caspian Investments Resources owns 100% interest in the KarakudukMunai project to develop the Karakuduk field, giving us an effective 50% interest in this project. The Karakuduk field is located approximately 365 kilometres northeast of Aktau in Kazakhstan. There were 155 operating oil wells at the field at the end of December 2012.

Kazakhoil-Aktobe. Caspian Investments Resources has a 50% interest in a joint venture related to the Kazakhoil-Aktobe project to develop the Alibekmola and Kozhasai fields, giving us an effective 25% interest in this project. KazMunaiGaz holds the remaining 50% interest in the joint venture. The joint venture has a term of 25 years. The Alibekmola and Kozhasai fields are located approximately 260 and 320 kilometres, respectively, south of Aktobe in Kazakhstan. There were 116 operating oil wells at the fields as of 31 December 2012.

Kumkol. The Kumkol field was discovered in 1984 and commenced production in May 1990. The northern part of the field, known as Kumkol North, is defined by a separate licence issued in 1995 for a 25-year term. We have a 50% interest in Turgai Petroleum, which owns a 100% interest in and is the

operator of Kumkol North. Our partner is CNPC, which owns the other 50% interest. The agreement relating to this project was entered into in April 1996 for a term expiring on 20 December 2020. Production at Kumkol North commenced in September 1995. In order to reduce oil transportation costs, a separate consortium formed by Turgai Petroleum and PetroKazakhstan constructed the 176.1-kilometre (109.4-mile) long Kumkol-Dzhusaly oil pipeline system connecting the field to the Dzhusaly oil loading terminal, where crude oil is delivered by rail to the CPC pipeline for export. Crude oil from this field is also supplied to the Shymkent refinery for subsequent sale of petroleum products in Kazakhstan and other CIS countries. There were 362 operating oil wells at the field as of 31 December 2012.

Tengiz and Korolevskoye. The Tengiz field was discovered in 1979 and has been operated under a project agreement by the Tengizchevroil joint venture since 1993. The joint venture also operates the Korolevskoye field. LUKARCO, our wholly-owned subsidiary, holds a 5% interest in the project. The project agreement has a term of 40 years. Our partners in this project include Chevron (50%), Exxon Mobil (25%) and KazMunaiGaz (20%). There were 100 oil production wells at this field as of 31 December 2012. Crude oil and other products (dry gas, propane, butane and sulphur) are transported to world markets via pipeline, railway and tankers.

Romania

Est Rapsodia and Trident. In July 2010, we won a tender for exploration and development of two blocks, Est Rapsodia and Trident, in the Romanian sector of the Black Sea together with PanAtlantic Energy Group (formerly Vanco Overseas Energy Group). Prior to November 2012, LUKOIL Overseas and PanAtlantic Energy Group owned 80% and 20%, respectively, of the consortium to develop these blocks. In November 2012, LUKOIL Overseas and PanAtlantic Energy Group transferred 8% and 2%, respectively, of their ownership interests in the consortium to Romgaz, the national gas company of Romania, in accordance with the terms of the concession agreement entered between the companies and the National Agency for Mineral Resources of Romania. The Est Rapsodia and Trident blocks are located in the Black Sea at depths ranging from 90 to 1,000 metres. The distance to the coastline is 60-100 kilometres, and the nearest town on the coast is Sulina. The total area of the two license blocks is approximately 2,000 sq. km.

Uzbekistan

Kandym-Khauzak-Shady. In June 2004, we signed a PSA with Uzbekneftegaz on the Kandym-Khauzak-Shady project for the production of natural gas in the Bukharo-Khivinsky Region in south-western Uzbekistan, including the Khauzak-Shady, Kandym and Kungradskiy licence areas. We have a 100% interest in the PSA, however, under the PSA, Uzbekneftegaz is entitled to a royalty of 10% of crude oil production from the project. The term of the PSA is 35 years and estimated capital expenditures are $2 billion. The project provides for the creation of a modern gas-chemical complex with a capacity of 282.5 bcf (8.0 bcm) per year. We commenced commercial production of natural gas and gas condensate in the Khauzak-Shady area in 2007 and at the Western Shady section at the end of 2011. The start-up of the first phase of the Kandym license area (Kuvachi-Alat field) is scheduled for 2014. LUKOIL share in proved reserves associated with this project are estimated to be approximately 3,302.6 bcf (93.5 bcm) of gas.

Southwest Gissar and Ustyurt. In March 2008, we purchased 100% of SNG Holdings, Ltd., whose wholly-owned subsidiary has a 100% interest in a PSA for fields in Southwest Gissar and the Ustyurtsky region in Uzbekistan. The 36-year PSA covers seven fields in Southwest Gissar, two of which are already producing oil and gas condensate. The PSA also includes a five-year licence for exploration in central Ustyurt and additional exploration in the Southwest Gissar contract territory. The other party to the PSA is Uzbekneftegaz, acting as the authorised agent for the Uzbek government. There were 22 production wells operating in the framework of the project as of 31 December 2012.

Aral Sea. In September 2005, we entered into an agreement with a consortium including Uzbekneftegaz (the Uzbek national oil company), Petronas Carigali Overseas (Malaysia), CNPC (China) and Korea National Oil Corporation. Pursuant to the agreement, the consortium signed a 35-year PSA in August 2006 with the government of Uzbekistan on the exploration and development of oil and gas fields in the Uzbek sector of the Aral Sea. The contract area covers approximately 18,300 sq. km (7,066 sq. mi.). Originally, all members of the consortium held equal 20% shares in the PSA. In 2011, Petronas Carigali Overseas exited the project and, as a result, we purchased an additional 6.6% shares in the PSA. During 2007-2009, over 3,000 metres of 2D seismic work was conducted resulting in the drilling of two exploration wells. In 2010, a deposit of natural gas with preliminary reserves of 11 billion cubic metres was opened in Western Aral. In August 2011, the consortium members approved a development programme for further work of project, including drilling of exploration and appraisal wells.

Cote d'lvoire and Ghana

We own interests in exploration, development and production projects in the Gulf of Guinea, offshore of Cote d'lvoire and Ghana. To date, we have drilled four exploratory wells in Cote d'lvoire and three wells in Ghana.

We own a 63% interest in an exploration, development and production project in the deepwater block CI-205 offshore of Cote d'lvoire in the Gulf of Guinea. Oranto Petroleum International Ltd., a Nigerian company, owns a 27% interest in the project and the state-owned PETROCI Holding holds the remaining 10% of the project. The size of the block is 2,600 sq. km (1,004 sq. mi.) and its distance to shore is approximately 100 kilometres (62 miles).

We also own a 56.66% stake in three offshore exploration projects totalling approximately 15,000 sq. km (5,792 sq. mi.) in the deep-water zone of the Gulf of Guinea, offshore of Cote d'lvoire and Ghana. The other parties to the project agreement in Ghana are the state oil company Ghana National Petroleum Corp. (15%) and PanAtlantic Energy Group (formerly Vanco Overseas Energy Group) (28.34%). The other parties to the project agreement in Cote d'lvoire are the state oil company PETROCI Holding (15%) and PanAtlantic Energy Group (28.34%).

From 2010-2011, we drilled three deepwater exploration wells at the Cape Three Points Deepwater Block (CTPDW) (the Dzata-1 and Cheetah structures), opening an oil and gas condensate deposit and confirming the presence of tight sand of high quality, but commercial amounts of hydrocarbons were not found. An updated geological model and program for further work at CTPDW is currently being developed. We plan to resume drilling off the coast of Ghana in November 2013.

We also operate the blocks CI-401 and CI-101 geological survey projects in Cote d'Ivoire. In December 2011, a 4,100-metre-long exploratory well at water depth of 1,700 metres at the CI-401 block (the Independence structure) revealed deposits of light oil and gas condensate in sandstone reservoirs. There are currently plans to appraise the Independence field, as well as update the geological model and formulate a work program for CI-101.

In October 2012, we entered into a new production sharing agreement with the government of Cote d'lvoire for the CI-524 offshore block in the Gulf of Guinea. The block CI-524 covers approximately 450 sq. km at a depth ranging from 800 to 1,500 metres, and is located in the eastern portion of block CI-401. The participants in this project are Lukoil Overseas with 60% (operator), PanAtlantic Energy Group with 30%, and state-owned PETROCI Holding with 10%.

Sierra Leone

In November 2012, we acquired a 25% interest in the geological exploration, development and production project at the SL-4B-10 offshore block in the waters off the coast of Republic of Sierra Leone in the Gulf of Guinea. We purchased the interest from Canada's Talisman Energy. The SL-4B-10 offshore block comprises an area of approximately 2,200 sq. km with water depths ranging from 100 to 3,000 metres.

In 2011, we reached an agreement for purchase of a 49% interest in an exploration and development contract at the offshore deepwater block SL-5-11 in the waters off the coast of Republic of Sierra Leone from the company Oranto Petroleum. Block SL-5-11 has an area of approximately 4,000 sq. km with water depths ranging from 100 to 3,000 metres. We conducted 2D and 3D seismic work in 2011-2012. Based on preliminary estimates from this work, we believe that there are a number of prospective structures with substantial crude oil resources.

Egypt

Meleiha. The Meleiha block consists of four main oil fields located in the western desert of Egypt. We are responsible for 24% of the costs of the project. To cover our costs, we receive a percentage of the "profit oil" from the project. Our share of the "profit oil" from the project was 6.0% in 2012. Our partners in the project are IEOC (56%) and MITSUI (20%). ENI Group is the operator of the project. Sixteen new oil production wells were put into operation in 2012, and there were a total of 233 oil production wells at the field by the end of December 2012. Oil is delivered to export via a 167-kilometre (104-mile) pipeline to the Al-Khamra oil terminal.

WEEM Block. The West Eshet-Malahha (WEEM) is an oil and gas development concession in Egypt. We are responsible for 100% of the costs of the project. To cover our costs, we receive a share in the "profit oil" from the project. Our share in the "profit oil" from the project was 30.0% in 2012. The other

party to the concession agreement is EGPC. We commissioned two new production wells in 2012. There were 33 oil production wells at the WEEM block as of 31 December 2012.

WEEM Extension. In September 2009, we signed an agreement with Tharwa Petroleum for 50% of its share in the exploration and production of the WEEM Extension block, which adjoins the WEEM block. The concession agreement for this block was initially signed in August 2009 between the Government of Egypt, Ganoub El-Wadi Holding Petroleum Company and Tharwa Petroleum Company. Exploratory work on this block began in 2010 and included drilling two exploration wells, seismic works and detailing the structure.

Iraq

West Qurna-2. In 1997, we signed a contract for a 68.5% interest in a PSA relating to the development of the second stage of the West Qurna-2 oil field in Iraq. 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. In 2009, the Iraqi government held a tender process for the rights to develop the West Qurna-2 field in which we participated. In December 2009, we won the tender for 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. In May 2012, Statoil withdrew from the West Qurna-2 project and in January 2013, we signed a supplement agreement to the development and production service contract related to Iraq's West Qurna-2 field, which (among other things) transferred Norwegian Statoil's 18.75% stake in the project to us (increasing our total stake in the West Qurna-2 project to 75%). We also agreed to reduce the project's target production level from 1.8 to 1.2 mmboe per day, as well to extend the period of target production level maintenance from 13 to 19.5 years and to prolong the total term of the contract from 20 to 25 years. North Oil Company owns the remaining 25% interest.

We began production drilling and construction of a key production facility in April 2012. As part of this initial project, 23 directional wells will be constructed. Drilling operations will occur simultaneously at five well pads by way of state-of-the-art diesel electric units with a bearing capacity of 450 tonnes. These units will allow workers to drill wells as deep as 5,000 metres without equipment remounting. Upon reaching a production volume of 150,000 barrels per day, we will be entitled to have our expenses reimbursed and receive remuneration. After initial expenses are reimbursed, we expect that this project will become self-financing. Our total investment in this project is expected to amount to approximately $26.0 billion over the next 10 years. We believe that the West Qurna-2 field is one of the largest undeveloped oil fields in the world, with expected production to reach over 90 million tonnes of oil per year by 2017. The development plan of the West Qurna-2 field requires additional seismic work and the drilling of more than five hundred wells. We expect oil production to begin in the end of 2013. In January 2013, the Iraqi Government announced that it was limiting output at the West Qurna-2 region in order to increase oil prices. See "*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—We may not be able to realise opportunities in Iraq*" for a description of risks associated with West Qurna-2 project.

Block 10. In October 2012, the Iraqi Government approved a geologic exploration, development and production contract for Block 10 located in the southern part of Iraq in the Di-Kar and Mutannah provinces. In June 2012, we, along with the Japanese INPEX Corporation, won a competitive bidding process to obtain a license to operate in Block 10, which covers 5,500 sq. km. We hold a 60% interest is this project and INPEX holds the remaining 40% interest. Lukoil Overseas is the operator of the project.

Saudi Arabia

Block A. In March 2004, we signed an upstream agreement with a term of 40 years for the exploration, development and production of non-petroleum gas and condensate in Block A, an area in central Saudi Arabia near the Ghawar field, the world's largest oil field. We hold an 80% interest in the project. Saudi Aramco, the Saudi Arabian state oil company, holds the remaining 20% interest. In 2009, we drilled two prospecting wells at the block and commenced drilling of an appraisal well at Tuhman-4. In 2010, the Tuhman-4 appraisal well was tested in the Tuhman field and, as a result, we determined to abandon the well on a temporary basis. In 2010, we suspended the active phase of the appraisal works and to defer carrying out additional geological and technical surveying. In 2011, we engaged an international engineering survey company to evaluate recompletion options for the wells, to prove the commercialization potential of the appraisal area and to optimize the stimulation technology for its development. These evaluations were completed in December 2011. During 2012, we held several meetings with our project partner, Saudi Arabian Oil Company, to confirm a common position for

negotiations of amendments to the current upstream agreement with the government of Saudi Arabia. As a result of these meetings, the partners agreed on an approach to reserves estimation, products yield as well as pricing and marketing matters and possible ways to improve project cost efficiency. In 2013, we, along with our partner, expect to submit proposals on field evaluation and project implementation measures for consideration and approval by the Saudi Arabian Government.

Venezuela

Junin-6. In September 2012, Russia's National Oil Consortium (NOC) began oil production in the Junin-6 field in the Orinoco river basin in Venezuela. The field is operated by PetroMiranda, a joint venture between the Venezuelan state-owned oil and natural gas company, PDVSA, which holds a 60% share in the joint venture, and NOC, which holds the remaining 40% share. LUKOIL, in turn, holds a 20% interest in NOC. The other consortium members are Rosneft (40%), Gazprom Neft (20%) and TNK-BP (20%). Rosneft acquired TNK-BP in March 2013, at which time Rosneft's stake in NOC increased to 60%. The field's total oil reserves are estimated to be approximately 52.6 billion barrels, with recoverable reserves of approximately 10.96 billion barrels. The Junin-6 field produced approximately 20,000 barrels a day at the end of 2012. Total production at the field in 2012 reached 50,000 barrels of oil equivalent per day.

Vietnam

Hanoi Trough-02. We own a 50% interest in a production sharing agreement at the offshore block, Hanoi Trough-02, in Vietnam, which we purchased from the privately owned oil company Quad Energy S.A. The HT-02 block is located on the shelf of the South China Sea. Geological exploration work has been underway at the block since 2007 and has resulted in the identification of a number of prospects with aggregate in-place resources exceeding 180 million tons of reference fuel. Drilling of exploration wells commenced on the block in 2011.

Refining, Marketing and Distribution

The refining, marketing and distribution segment of our business comprises refining, gas processing, sales and other deliveries of crude oil, sales of refined products and retail marketing of refined oil products.

Refining

We refined a total of 484.3 mmboe (66.1 million tonnes) of raw materials at our own refineries (including our share in the ISAB and Zeeland refining complexes) in 2012. We also refined 19.5 mmbls (2.7 million tonnes) of crude oil under contracts with third party refineries in 2012.

We own four oil refineries in Russia, located in Perm, Volgograd, Ukhta and Nizhny Novgorod. These refineries, along with our mini-refineries in Urai and Kogalym, have a combined refining capacity of approximately 335.0 mmboe (45.7 million tonnes) per year and refined a total of 325.7 mmbls (44.4 million tonnes) of crude oil in 2012. Outside of Russia, we own refineries in Ukraine, Bulgaria, Romania, an 80% share in a refining complex in Italy and a 45% share in a refinery complex in The Netherlands, which have a combined refining capacity of 214.8 mmboe (29.3 million tonnes) per year and refined a total of 158.6 mmbls (21.7 million tonnes) of raw materials in 2012.

In September 2009, we purchased a 45% stake in TRN (in 2011 TRN changed its name to Zeeland) from TOTAL S.A. for $688 million. Zeeland operates a refinery near Vlissingen, The Netherlands that has a total refining capacity of approximately 57.9 mmboe (7.9 million tonnes) per year and a hydro-cracking unit that has a capacity of approximately 24.9 mmboe (3.4 million tonnes) per year.

As part of our strategy to participate in more stages of the hydrocarbon production chain, we intend to upgrade our refineries to produce higher volumes of higher-value light products such as gasoline, jet fuel and diesel fuel, and expand into petrochemicals. We intend to continue to invest in our refineries to expand their capacities and to upgrade the quality of refined products and the proportion of higher value light products to improve the profitability of these facilities and improve returns from our downstream business.

We have invested, and expect to continue to invest, substantial amounts in the modernisation of our refineries. As a result of such modernisation, all our European refineries comply with the current European Union standards in terms of the products produced. Fuels exported from Russian refineries also meet the European Union specifications which gives us an additional competitive advantage. In 2012, we spent $1.4 billion on refining capital expenditures, including $988 million in Russia. In March 2010, we signed a multi-year agreement with Emerson Process Management to modernise 13 refining and

petrochemical facilities in Russia and Eastern Europe. Under the agreement, which extends through 2014, Emerson Process Management will provide equipment, software, and services as part of our enterprise-wide strategy to modernise process automation at our oil and gas refineries, petrochemical plants and related facilities. The refineries and petrochemicals plants that were expected to be upgraded under this agreement include Stavrolen and Saratovorgsintez in Russia, Neftochim Bourgas in Bulgaria, and Karpatnaftochim Ltd. in Ukraine, as well as other facilities in Romania, Perm, the Volgograd region and the Komi Republic.

The following table provides, for each of our refineries, our share of annual refining capacity (calculated as of 31 December 2012) and historical throughput for each of the years ended 31 December 2012, 2011 and 2010.

	Annual Refining Capacity	Throughput Year ended 31 December 2012	2011	2010
Refinery		*(million tonnes of crude oil)*		
Russia				
Perm	13.1	13.1	12.7	13.0
Volgograd	11.3	11.4	10.9	11.0
Ukhta	3.9	3.7	4.5	4.1
Nizhny Novgorod	17.0	16.1	17.0	16.9
Mini refineries	0.4	0.2	0.2	0.2
International				
Odessa[1]	2.8	0.0	0.0	1.4
Bourgas[2]	9.8	6.4	5.8	6.0
Petrotel[3]	2.4	2.2	2.4	2.5
ISAB[4]	12.8	8.6	6.9	6.6
Zeeland[5]	5.1	4.4	4.5	4.5
Total	**73.0**	**66.1**	**64.9**	**66.2**

(1) As of 31 December 2012, we owned 99.58% of the Odessa refinery. In March 2013, we entered into an agreement with VETEK Group to sell our entire interest in the Odessa refinery. We expect the sale to close by June 2013.

(2) As of 31 December 2012, we owned 99.61% of the Bourgas refinery.

(3) As of 31 December 2012, we owned 95.63% of the Petrotel refinery.

(4) As of 31 December 2012, we owned 80% of the ISAB refinery complex. We acquired a 49% interest in ISAB in December 2008 and subsequently increased our share in ISAB to 60% in 2011 and to 80% in 2012.

(5) As of 31 December 2012, we owned 45% of the Zeeland refinery. Figure includes 1.6 million tonnes of vacuum gas oil throughput in 2012.

The following table sets out our production of certain refined products for the year ended 31 December 2012 expressed as a percentage of our total refined products production volume (excluding production from our mini-refineries).

	Year ended 31 December 2012
Product	
Gasoline	22.6%
Fuel oil	21.1%
Middle distillates	40.0%
Vacuum gas oil	7.1%
Lubricants	1.8%
Other	7.4%
Total	**100.0%**

Domestic Refineries

Perm. We own 100% of the Perm refinery, which we acquired in 1991 as part of the Russian Government's privatization programme. The refinery was built in 1958 and currently has a refining

capacity of 13.1 million tonnes per year. The refinery processes a blend of crude oils from the northern part of the Perm region and from Western Siberia. It produces a range of products, including gasoline, jet fuel, diesel fuel, lubricants, fuel oil, fuel grade petroleum cokes and bitumen. The refinery's facilities include catalytic cracking, catalytic reforming, delayed coking, lubricants production and hydrotreating units. In July 2012, all of our refineries in Russia switched from manufacturing Euro-4 gasoline to manufacturing Euro-5 gasoline. We have commenced a large-scale modernisation programme at the Perm refinery to increase refining depth and to increase the refinery's production of higher quality refined products. We expect to complete the programme, which includes construction of a delayed coking unit with 2.1 million tonnes annual capacity, a diesel hydrotreatment unit, a hydrogen unit and a sour water stripping unit, by 2015. We supply crude oil to the Perm refinery from our fields in Western Siberia and from the Perm region through the Transneft pipeline network and local intra-field pipelines which feed into an on-site crude oil reservoir park. We transport products from the Perm refinery through the Perm-Andreevka-Ufa oil product pipeline and by rail, river-class tanker and truck.

Volgograd. We own 100% of the Volgograd refinery, which we acquired in 1991 as part of the Russian Government's privatization programme. The refinery was originally built in 1957 and currently has a refining capacity of 11.3 million tonnes per year. The refinery processes a light blend of West-Siberian and Lower-Volga crude oils. It produces a range of products, including gasoline, diesel fuel, electrode coke, lubricants and bitumen. The refinery's facilities include catalytic reforming, coke calcination, delayed coking, bitumen production and hydrotreating units. The refinery also has gas refining facilities with an annual capacity of 240,000 tonnes of natural gas liquids. A new delayed coking unit with 1.0 million tonnes annual capacity was brought into operation in December 2011. In late 2012, a new diesel fuel hydrorefining unit with rated capacity of 22.0 mmbls (3.0 million tonnes) per year was put into operation at our refinery in Volgograd, which made all of the refinery's gasoline and diesel fuel output compliant with Euro-5 environmental standards. In February 2013, we began construction at our Volgograd refinery of a complex for the deep refining of vacuum gas oil, which is expected to allow the refinery to increase Euro-5 diesel fuel output by 13.2 mmbls (1.8 million tonnes) per year. The project is scheduled to be completed by the end of 2015. We supply crude oil to our Volgograd refinery from our fields in Western Siberia and the lower Volga region through the Transneft pipeline system. The Volgograd refinery transports its refined products by rail, river-class tanker or truck.

Ukhta. We own 100% of the Ukhta refinery, which we acquired in 1999. The refinery was originally built in 1934 and currently has a refining capacity of 3.9 million tonnes per year. The refinery processes a blend of crude oils from Komi fields and Yareg heavy oil. It produces a range of products including gasoline, diesel, fuel oil and bitumen. The refinery's facilities include primary petroleum processing, catalytic reforming, bitumen production and diesel fuel hydrodeparafinisation units. The refinery also has a tank car loading rack for light refined products. Upgrades to the Ukhta refinery have enabled it to commence production of automotive gasolines meeting Euro-5 requirements. Our current modernization program provides for expansion of the vacuum block on atmospheric-vacuum distillation unit in 2013. The Ukhta refinery receives crude oil by pipeline and rail. Its refined products are stored prior to shipment in an on-site reservoir park and are shipped by rail.

Nizhny Novgorod. We own 100% of the Nizhny Novgorod refinery, which we acquired in October 2001. The refinery began operation in 1958 and currently has a refining capacity of 17.0 million tonnes per year. The refinery processes a blend of West Siberian and Tatarstan crude oils. The refinery's production includes gasoline (to Euro-5 standards), diesel fuel (to Euro-5 standards), fuel oil, vacuum gas oil, jet fuel, bitumen and lubricants. The refinery's facilities include isomerisation, catalytic reforming, hydrotreating, bitumen production and lubricants production units. We began a complex reconstruction and modernisation programme in July 2005, which involved construction of a deep-refining complex (including catalytic cracking, alkylation and vacuum gas oil hydrotreatment units). The complex launched in December 2010 at a cost of approximately RUB 30 billion ($988 million), enabling it to produce an additional 1.5 million tonnes of gasoline and 300,000 tonnes of diesel fuel. In September 2012, we began construction of a second catalytic cracking complex, which is scheduled to be operational in early 2015. The refinery is also working on a project to build a hydrocracking complex which, along with the construction of the second catalytic cracking complex, is part of the Group's strategic development programme for 2012-2021. A dedicated pipeline connects the refinery directly to the Transnefteproduct system, the state-owned refined products pipeline, which makes transportation costs comparatively less expensive than rail transport.

International Refineries

Odessa. As of 31 December 2012, we owned 99.58% of the Odessa refinery in Ukraine. In March 2013, we entered into an agreement with VETEK Group to sell our 99.58% interest in the Odessa refinery. We expect the sale to close by June 2013. The refinery was built in 1937 and has a refining capacity of 2.8 million tonnes per year. The refinery was closed down in late 2010 due to unfavourable market conditions in Ukraine.

Bourgas. We own 99.61% of the Bourgas refinery in Bulgaria (LUKOIL Neftochim Bourgas AD). In October 1999, we acquired, together with a local partner, a 58% interest in the Bourgas refinery from the government of Bulgaria. In July 2000, we purchased our local partner's interest. Since 2002, we have been increasing our ownership interest in the Bourgas refinery by buying stock from minority shareholders in an ongoing buy-back programme. The Bourgas refinery was built in 1964 and has a refining capacity of 9.8 million tonnes per year. The Bourgas refinery processes Urals blend crude oil and fuel oil from the Odessa refinery. It produces a range of products, including gasoline (to Euro-5 standards), diesel fuel (to Euro-5 standards), jet fuel and fuel oil. The refinery's facilities include primary refining, fluid catalytic cracker, catalytic reforming, thermocracking, hydrotreating and sulphuric acid alkylation units. The refinery's complex also includes a petrochemicals plant and a polymerisation plant which produce petrochemical products. See "—*Refined Products Sales—Petrochemicals*" for more information about the Bourgas refinery's involvement in our petrochemicals operations.

We are currently in the process of implementing an investment programme for the Bourgas refinery. In 2010, we completed upgrades to the refinery, which modernised the diesel fuel hydrotreating unit allowing the refinery to produce Euro-5 compliant fuel. Our current modernization program provides for construction of a complex for refining of heavy residual stock by 2015. The Bourgas refinery is located 30 kilometres (19 miles) from a port terminal on the Black Sea. This location allows the refinery to receive crude oil shipments by sea, and also to deliver its products by sea in addition to truck, rail and product pipelines.

Petrotel. We own 95.63% of the Petrotel refinery in Romania (PETROTEL-LUKOIL S.A.), which we acquired in a series of transactions from 1998 through 2002. The refinery was built in 1927 and has a refining capacity of 2.4 million tonnes. The Petrotel refinery produces a range of products, including diesel fuel and gasoline (both to Euro-5 standards), and adjusts its product mix to match demand on the market. Most of the gasoline and diesel fuel produced by the refinery is marketed through LUKOIL's retail network in Romania; the excess is exported to supply LUKOIL's retail outlets in neighbouring countries. The refinery processes Urals blend crude oil, which is supplied via pipeline from the Black Sea port of Constanta. Petroleum products are shipped by rail and road. In 2009, we completed the reconstruction of a diesel fuel hydrotreatment unit, a catalytic cracking unit for hydrotreatment of gasoline and production of MTBE/TAME and the vacuum block of ADU-1 unit. In addition, in 2009, we completed construction of a hydrogen production unit. In 2010, two new coke drums of a delayed coking unit were installed and in 2012, we launched propylene production with sulphur content below 5 ppm. Our current modernization program provides for construction of FCC flue gas treatment unit by 2014.

ISAB. We own an 80% stake in a joint venture that manages the ISAB refinery complex in Priolo, Italy. We acquired a 49% interest in ISAB in December 2008, pursuant to an agreement we signed with ERG in June 2008 and subsequently increased our share in ISAB to 60% in 2011 and to 80% in 2012. The refinery was built in 1975 and has a total refining capacity of 16.0 million tonnes per year (of which our share is 12.8 million tonnes per year). The refinery complex consists of two oil refineries joined by a system of pipelines and integrated into a single operating complex, and also includes three jetties, storage tanks with a total capacity of 3.7 mcm and a 99 MW power station. The ISAB refinery mainly processes sour crudes, similar to the Urals blend, but the refinery has historically been supplied by the Black Sea, North and West Africa and Persian Gulf countries. Its production includes diesel fuel and gasoline (to Euro-5 standards) and fuel oil. The refinery is located at the centre of the Mediterranean petroleum products trade, and most of its products are exported, with most gasoline going to the United States and most of the diesel fuel produced going to European Union markets.

Zeeland. We own a 45% stake in the Zeeland refinery near Vlissingen, The Netherlands. We acquired our interest in TRN (which changed its name to Zeeland in 2011) in September 2009 for $688 million pursuant to an agreement we signed with TOTAL S.A. in June 2009. TOTAL S.A. owns the remaining 55% stake in Zeeland, and we manage the refinery with TOTAL S.A. on a 50/50 basis. Construction of the TRN refinery was completed in 1973. It has a total refining capacity of 7.9 million tonnes per year (of which our share is 3.6 million tonnes per year) and a hydro-cracking unit that has a capacity of 3.5 million tonnes per year (of which our share is 1.5 million tonnes per year). Zeeland has the capability to process a

variety of crude oil qualities, although it mainly processes heavy, sulphurous crude oils, and we have historically supplied crude oil to Zeeland from our production in Timan-Pechora. The refinery also has the capacity to import and process hydrocracker feedstocks such as straight run fuel oil and vacuum gas oil. The hydrocracker configuration at Zeeland is focused on producing premium quality middle distillates, including jet fuel, diesel fuel, solvents and lube base oil. The refinery's location allows it to receive crude oil from sea tankers and to ship refined products by inland waterways. Zeeland owns certain other assets, including a marine terminal, a barge jetty and a minority interest in the Maasvlakte Oil Terminal in Rotterdam.

Other Refineries

We have two Russian mini-refineries in Urai and Kogalym with a combined annual capacity of 450,000 tonnes. These mini-refineries refine a blend of local crudes and are each equipped with an atmospheric distillation unit, a catalytic reforming unit and a bitumen unit. The mini-refinery in Kogalym is also equipped with a hydrotreatment unit.

Gas Processing

We currently process our gas production at four domestic facilities: the Korobkovsky gas processing plant (in the Volgograd region), the Permneftegazpererabotka gas processing plant (in the Perm region), the Usinsk gas processing plant (in the Komi Republic) and the Lokosovsky gas processing plant (in the Tyumen region). These gas processing plants have a combined capacity of 129.0 bcf of gas feedstock per year and 1,161 thousand tonnes of natural gas liquids per year. We own 100% of each of these processing plants. Our gas processing plants processed 118.2 bcf of gas feedstock in 2012. The Lokosovsky gas processing plant is currently our main gas processing facility in Russia. Its gas processing capacity is currently 75.6 bcf per year.

Crude Oil Sales

Overview

We sell the crude oil that we do not refine into the domestic and international markets. The international markets include exports from Russia and sales outside of Russia of crude oil production from our international projects. We also undertake crude oil trading activity on international markets.

The table below sets out our domestic and international crude oil sales for each of the years ended 31 December 2012, 2011 and 2010.

	Years ended 31 December					
	2012		**2011**		**2010**	
	(mmbls)	*($ million)*	*(mmbls)*	*($ million)*	*(mmbls)*	*($ million)*
Russia	33.3	1,634	32.7	1,571	26.7	956
International	254.1	26,036	321.0	32,522	349.9	26,342
Total	**287.4**	**27,670**	**353.7**	**34,093**	**376.6**	**27,298**

Domestic Sales

We sold 33.3 mmbls (4.5 million tonnes) of crude oil within Russia in 2012.

International Sales

We sold 254.1 mmbls (34.7 million tonnes) of crude oil outside of Russia in 2012. Our international sales are primarily to purchasers in Europe. Over 83% of our international crude oil export sales and over 55% of our international petroleum products export sales go through our subsidiary LITASCO (and its wholly-owned subsidiaries).

LITASCO

LITASCO, a wholly-owned subsidiary of LUKOIL INTERNATIONAL, is our primary marketing vehicle for international sales of crude oil and refined products. LITASCO's key functions include both marketing the Group's crude oil and products and trading with third parties. Trading with third parties allows LITASCO to increase the efficiency of LUKOIL system barrel sales and enables the Group to

further expand its international operations. For this reason, the Group expects to increase the scale of LITASCO's third party trading activity over the next several years.

In 2012, LITASCO (and its wholly owned subsidiaries) sold 212.6 mmbls (29.0 million tonnes) of crude oil and 74.2 million tonnes of refined products to third parties. In addition, as part of its crude oil trading activities, LITASCO (and its wholly owned subsidiaries) purchased from third parties 112.9 mmbls (15.4 million tonnes) of crude oil and 46.6 million tonnes of refined products in 2012. LITASCO's (and its wholly owned subsidiaries) total sales to third parties totalled $88.6 million in 2012.

The Group uses derivative instruments in international petroleum products marketing and trading operations. The types of derivative instruments used include futures and swap contracts, used for hedging purposes, and purchase and sale contracts that qualify as derivative instruments. The Group maintains a system of controls over these activities that includes policies covering the authorisation, reporting and monitoring of derivative activities.

Through LITASCO (and its wholly-owned subsidiaries and branch offices) we:

- market our crude oil and refined products outside of Russia, including in the Baltic region of Eastern Europe, Western Europe, the Black Sea and Mediterranean regions, the Americas and Asia;
- supply crude oil to our international refineries, and supply refined products to our retail network in Eastern Europe, the Caucasus and the Baltic states;
- develop our international third-party crude oil and refined products trading platform to optimise our marketing efforts and sales; and
- are engaged in oil refining through management of the operations of the ISAB (Italy) and Zeeland (The Netherlands) refineries.

LITASCO's international trading network includes offices located in nine countries.

Refined Products Sales

Overview

We sold a total of 113.0 million tonnes of refined products in 2012 through both retail and wholesale channels. We sell a wide range of refined products, including gasoline, diesel fuel, fuel oil and lubricants. In 2012, we sold 20.5 million tonnes, or 18%, of our refined products in the domestic market and 92.5 million tonnes, or 82%, internationally. The table below provides information on our refined products sales for each of the years ended 31 December 2012, 2011 and 2010.

	Years ended 31 December					
	2012		**2011**		**2010**	
	(thousands of tonnes)	*($ million)*	*(thousands of tonnes)*	*($ million)*	*(thousands of tonnes)*	*($ million)*
Russia	20,497	16,803	19,328	15,242	17,999	10,928
International	92,485	86,604	83,258	76,335	87,357	60,018
Total	**112,982**	**103,407**	**102,586**	**91,577**	**105,356**	**70,946**

We transport our refined products through Transnefteproduct's refined product pipeline, via ship, rail and truck. In 2012, we transported 16.8 million tonnes of refined products via rail, 2.2 million tonnes through the Transnefteproduct system and 2.9 million tonnes via ship.

Our retail distribution system is divided into a central office and regional distribution centres. Sales and distribution are managed centrally from our Moscow headquarters. Using data from internal sources on refined product production and projected demand from individual regions, the central sales and distribution office directs refineries to send refined products to regional distribution centres. The refinery then ships the product via the designated transport route to the regional distribution centre for onward distribution. The regional distribution centres receive instructions from the central selling and distribution centre on the destination of products. This centralised system helps us improve distribution efficiency by determining distribution according to regional demand and enables us to consider a greater number of markets for our products.

Domestic Refined Products Sales

Domestically, we sell refined products through wholesale and retail channels. We sold a total of 20.5 million tonnes of refined products domestically, including government-related sales, in 2012. These sales included 8.9 million tonnes through our retail network within Russia and 11.6 million tonnes through wholesale channels in 2012. See ''—*Refining, Marketing and Distribution—Retail Marketing*'' for more information about our domestic retail filling station network.

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. 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. Additionally, some of our oil production licences require us to sell crude oil which we produce to local government agencies. See ''*Risk Factors—Risks Relating to the Russian Federation—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.*''

International Refined Products Sales

Internationally, we sell refined products to third parties through wholesale and retail channels. In 2012, we sold a total of 92.5 million tonnes of refined products in the international market, 22.5 million tonnes of which were exported from Russia. Over that period, 6.6 million tonnes of refined products were sold through our retail network outside Russia and 85.9 million tonnes were sold through wholesale channels. See ''—*Refining, Marketing and Distribution—Retail Marketing*'' for more information about our international retail filling station network.

Retail Marketing

As of 31 December 2012, we owned, leased and franchised 5,929 retail filling stations, including 2,368 in Russia, 503 in the CIS (excluding Russia), 212 in the Baltic countries, 2,421 in Europe and 425 in the United States. Most of the stations operate under the LUKOIL brand. In 2011, we undertook a restructuring of our retail network in the United States, resulting in a reduction of the total number of stations that we owned, leased and franchised from over 6,500 at the end of 2010 to almost 6,000 at the end of 2011.

As of 31 December 2012, we owned or leased 4,997 retail filling stations in Russia, other countries of the CIS and Europe. We have one of the largest retail networks in Russia, where we own or lease 2,206 filling stations. We also have a network of 931 franchised stations in Russia and internationally which sell our products exclusively. Our franchise programme includes rigid quality control requirements (including those relating to LUKOIL corporate specifications and designs). Our retail network also includes 183 tank farm facilities with a total capacity of 2.7 mmcm.

In 2006, we began selling gasoline and diesel in Russia under our new EKTO brand, which is an acronym from the Russian words for ''ecological fuel''. In Russia, LUKOIL holds the leading position in production and sales of European standards motor fuel. Beginning in 2012, all the gasoline and diesel fuel produced by the Group in Russia comply with Euro-5 standards. In addition to automotive fuels, many of our retail filling stations provide car accessories and basic vehicle service, and increasingly offer goods such as fast food, convenience products and groceries.

The following table provides selected data on our retail filling station as of 31 December 2012.

	Russia	CIS and Europe	United States	Total
Owned/Leased Stations	2,206	2,366	425	4,997
Franchised Stations[(1)]	162	769	0	931
Total	**2,368**	**3,136**	**425**	**5,928**

(1) Stations owned by third-party dealers and subject to long-term contracts with pricing similar to retail pricing.

Outside Russia, we have retail operations in Azerbaijan, Belarus, Georgia, Moldova, Ukraine, Bulgaria, Hungary, Finland, Estonia, Latvia, Lithuania, Poland, Serbia, Montenegro, Romania, Macedonia,

Cyprus, Turkey, Belgium, The Netherlands, Luxembourg, Czech Republic, Slovakia and Croatia, Bosnia and Herzegovina, as well as in the United States.

Our optimisation programme in relation to in our retail network is focused on withdrawal of stations and tank farms with low efficiency levels. We continue to build and acquire new, more efficient filling stations and upgrade existing ones. In the second quarter of 2012, we acquired 46 filling stations in The Netherlands and 13 filling stations in Belgium from Verolma Group. Of these 59 filling stations, 29 are franchised stations that are owned by third-party dealers.

In Europe and the CIS, we built seven and reconstructed 92 filling stations in 2012. In Russia, we built 28 and reconstructed 73 filling stations in 2012. Capital investments in the retail sector in 2012 totalled $252 million in Russia and $136 million internationally.

Petrochemicals

Our petrochemicals operations are an important part of our business and they provide us with strategic benefits, including more diversified revenues and an additional source of petrochemicals products necessary for our operations. We intend to develop our petrochemicals business primarily by upgrading our existing petrochemical facilities and constructing new facilities, and also by using petrochemical feedstock supplies available in Russia. We believe that demand in the Russian and international markets for petrochemicals products will grow in the coming years and we intend to expand our petrochemicals production capacity to meet this demand.

Our petrochemicals operations are conducted through our three petrochemicals plants in Russia and Ukraine and our Bourgas refinery. In Russia, we own the OOO Stavrolen and OOO Saratovorgsintez petrochemicals plants. The Stavrolen plant produces polyethylene, liquid pyrolysis fractions, polypropylene, benzene and other products, and the Saratovorgsintez plant produces acrylonitrile and other organic synthesis products. In mid-December 2011, a fire broke out at the ethylene production unit of the Stavrolen petrochemical complex, which suspended ethylene and propylene operations until September 2012.

We have hold an effective 84.7% interest in Karpatnaftochim Ltd., a petrochemicals plant in Ukraine, through our subsidiaries LUKOIL CHEMICAL B.V. (which owns 68.0%) and OOO ''LUKOIL-Naftochim'' (which holds a 52.07% interest in ZAO ''LUKOR'', who in turn holds a 31.98% interest in Karpatnaftochim). Karpatnaftochim was established in 2000 and produces polyethylene, vinyl chloride and other products. In addition, our Bourgas refinery has polypropylene manufacturing capabilities.

We have been steadily increasing production of high value-added chemicals (polymers, monomers and organic synthesis products) at our petrochemicals plants over the last five years, in line with our strategy to develop our petrochemical business. At the same time, production of low value-added chemicals (such as pyrolysis products and fuel fractions) has been reduced. Total combined output of marketable chemicals from our petrochemicals facilities was 0.9 million tonnes in 2012, and our products were sold in Russia and exported to more than 30 countries. Capital expenditures in the petrochemicals sector were $90 million in 2012, compared with $89 million in 2011.

Power Generation

We continue to develop the power generation sector of our business as part of our strategic development programme. We expect power generation to be an important factor in our long-term growth. This sector encompasses all aspects of the power generation business, including the delivery and marketing of electrical energy and of heat produced at power plants. The sector provides energy both for our own needs (to support our exploration and production and refining and marketing segments) and for external power and heat customers in parts of Russia. The Group has installed capacity of combined heating plants of 4.0 GW and installed heating capacity of 10,909 Gcal/hour in Russia. Our total output of electrical energy was 15.4 billion kWh in 2012. Our total output of heat energy was approximately 14.7 million Gcal in 2012.

In 2010, we completed the reorganization of TGK-8 and changed its name to OOO LUKOIL-Ecoenergo (LUKOIL-Ecoenergo). Our power generation business sector now includes OOO LUKOIL-Volgogradenergo, OOO LUKOIL-Kubanenergo, OOO LUKOIL-Astrakhanenergo, OOO LUKOILRostovenergo, OOO LUKOIL-Stavropolenergo, OOO LUKOIL-TTK, OOO LUKOIL-Ecoenergo, our own power generating facilities at our oil and gas fields in Russia and power generators in Bulgaria, Romania and Ukraine. LUKOIL-Ecoenergo combined all of the Group's hydroelectric power stations and it is also engaged in projects in the field of wind and solar energy

internationally and eventually plans to apply its international experience to the field of "green" energy in Russia.

LUKOIL-Ecoenergo owns four hydropower plants (HPP) in Russia: the Tsimlyanskaya HPP, which has a capacity of 209 MW, in the Rostov region; Belorechenskaya HPP (48 MW) and Krasnopolyanskaya HPP (30.4 MW) in the Krasnodar territory and Maykopskaya HPP (9.44 MW) in the Republic of Adygeya. The aggregated capacity of our hydropower plants is approximately 300 MW, or about 5% of the installed capacity of all hydropower plants in southern Russia. LUKOIL-Ecoenergo's annual gas consumption is approximately 212.0 bcf (6.0 bcm).

In March 2013, we began construction of a combined-cycle gas turbine (CCGT) unit in the regional industrial park located close to the Stavrolen petrochemical complex. The 135 MW CCGT unit is designed to satisfy the needs of the gas chemical complex to be constructed by LUKOIL at the Stavrolen industrial site. In addition, a portion of the electric and thermal power will be supplied to other consumers in the region. Construction of the 135 MW CCGT unit is part of LUKOIL's obligations under a power delivery contract (PDC) with regard to the wholesale power market. As part of the PDC, LUKOIL will commission five CCGT facilities at the combined heat-and-power plant, with a total capacity of 890 MW. The power generation segment investment programme includes the construction of power plants with a total capacity of approximately 890 MW. We are in the process of approving certain amendments to the capital construction programme, including an extension of the programme through the end of 2014.

In 2011, we commissioned a CCGT unit with a capacity of 110 MW in Astrakhan and a CCGT unit with a capacity of 410 MW in Krasnodar. This new unit increases the installed electric capacity of our power plant in Krasnodar to 1,090 MW. Construction of two additional CCGT units with a total capacity of 235 MW (120 MW and 115 MW) was launched in Astrakhan in February of 2012. Completion of these CCGT units is currently scheduled for the third quarter of 2013.

Renewable Energy

LUKOIL is developing alternative energy in partnership with international companies, which are already engaged in this sphere. In January 2013, LUKERG Renew (a joint venture between LUKOIL-Ecoenergo and the Italian ERG Renew) acquired a 100% interest in the Romanian company Land Power SRL, which holds a license to build a wind power station, and the rights to a land plot with an area of approximately five sq. km located in the southeastern part of Romania. LUKERG Renew intends to begin construction in early 2013 of a wind power station consisting of 42 wind turbines with a total capacity of approximately 84 MW. Commercial operation is expected to commence in the first half of 2014. The wind power station is expected to generate more than 200,000 MWh per year. LUKERG Renew was founded in May 2011 to implement renewable energy projects. In 2012, the joint venture purchased a wind power station near Dobrich, Bulgaria with a rated capacity of 40 MW.

In Uzbekistan, we are working on a project for the construction of a solar power station with 100 MW capacity in association with the government of Uzbekistan and the Asian Development Bank. In addition, in late 2011, we commissioned a 1.25 MW photovoltaic (solar) generating facility at our fuel-fired power station in Bulgaria. Estimated annual production of electricity is about 1,500 MWh.

Transportation

Crude Oil Transportation

We use the Transneft pipeline system, our own pipeline network, other pipelines, rail cars and tankers to transport the crude oil which we produce within Russia, for export outside of Russia and to our refineries. We transport most of our crude oil production in Western Siberia through the Transneft pipeline system. LUKOIL-Western Siberia's Uraineftegas production unit transports its high quality light low-sulphur crude oil directly from its production facilities via a dedicated Transneft pipeline network to the Black Sea port of Tuapse, thus avoiding the blending which would otherwise occur. Substantially all of our crude oil production in the Ural and Volga regions is transported via Transneft or is exported by tanker. In Timan-Pechora, production from LUKOIL-Komi is transported through the Transneft pipeline. We transport oil from other fields in Timan-Pechora, primarily from the Yu. Khylchuyu field, via pipeline to our terminal at Varandey on the Barents Sea and then ship via tanker to international markets. The following discussion sets out further details about the crude oil transportation infrastructure that we use.

Pipelines

Transneft. Most of our crude oil production is transported through the Transneft pipeline system. In 2012, we exported 223 mmbls (30.5 million tonnes) of crude oil, or 88% of our total crude oil exports in 2012, via Transneft. Transneft is a state-owned pipeline monopoly. 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. Some Russian companies are able to obtain excess export quota through extra allocation from Transneft or by purchasing quota from other oil companies.

The FTS is responsible for setting Transneft's fees, which have risen in recent years and may continue to rise. The fees tend to increase annually. The overall cost of transporting crude oil through the Transneft pipeline system depends on the location of the fields in relation to the ultimate destination (including the length of the transport route and whether deliveries are for export or for domestic consumption). See ''*Regulation of the Oil Industry in the Russian Federation—Crude Oil and Refined Product Transportation Regime*'' for more information on crude oil transportation.

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. See ''*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—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*'' for more information about the risks related to our transportation of crude oil through the Transneft pipeline system.

Domestic crude oil pipelines. To avoid the blending which occurs in the main Transneft system, we use alternative pipelines to the extent possible. For example, we transport the crude oil produced at LUKOIL-Western Siberia's Uraineftegas production unit, which is a high quality light low-sulphur crude oil, directly from its production facilities to the Black Sea port of Tuapse via a dedicated Transneft pipeline network. We transport crude oil which we produce at our LUKOIL-Komi subsidiary to the Transneft system through our Kharyaga-Usa pipeline, which has an annual capacity of 88.0 mmbls (12.0 million tonnes).

In October 2012, we completed construction of the Kharyaga-Yu. Khylchuyu interfield oil pipeline, construction of which was launched in 2010, with an annual estimated capacity of 4.0 million tonnes. The oil pipeline is designed to transport oil from the ''Sever-TEK'' (Kharyaga) terminal to the Yu. Khylchuyu oil delivery and acceptance station and subsequently deliver oil to the Yu. Khylchuyu-Varandey interfield oil pipeline. The Kharyaga-Yu. Khylchuyu pipeline is expected to reduce oil transportation costs by allowing the Group to utilise the sea route for exporting oil (instead of relying on Transneft's Baltic Pipeline System (BPS), which is more expensive).

Caspian Pipeline Consortium. LUKARCO has a 12.5% interest in the Caspian Pipeline Consortium (CPC) pipeline, which is a 1,510-kilometre (932-mile) oil pipeline connecting oil fields in Western Kazakhstan to the CPC's marine export terminal at the Black Sea port of Novorossiysk in Russia. Other parties involved in the CPC are the government of Russia (24%), the government of Kazakhstan (19%), Chevron (15%), Rosneft-Shell Caspian Ventures (7.5%), Exxon Mobil (7.5%), CPC Company (Russia) (7%), ENI (2%), BG Group (2%), Kazakhstan Pipeline Ventures (1.75%) and Oryx (1.75%). The pipeline has a capacity of approximately 650,000 bpd (28.2 million tonnes per year). The CPC plans to expand the pipeline's capacity to 1,345 mbpd (67.0 million tonnes per year). Crude oil produced from several of our projects, including our Karachaganak, Kumkol and Tengiz projects, is transported to the CPC terminal at Novorossiysk through the CPC pipeline. For more information on our ownership interest in CPC through LUKARCO, see ''*—Exploration and Production—International Exploration and Production—Kazakhstan—LUKARCO*''.

The CPC operates a ''quality bank'' system, under which exporters who supply high-quality hydrocarbons receive a price premium, and those who supply lower-quality hydrocarbons receive a price discount, to the average blend transported through the CPC pipeline. The blend of oil transported through the CPC pipeline is referred to as ''CPC blend'', the price for which is quoted separately with a premium over Urals blend.

International Pipelines. The Caspian Sea is land-locked. The export of oil from this region is therefore dependent on onshore pipelines. Currently, hydrocarbons are exported from the Caspian Sea via a northern route through Azerbaijan and Russia to the Russian Black Sea port at Novorossiysk and via a western route through Azerbaijan and Georgia to the Black Sea port at Supsa. As production volumes increase as a result of development of fields in Azerbaijan, the export capacity of the current infrastructure will be insufficient.

In 2003, the construction of the 176.1-kilometre (109.4-mile) long Kumkol-Djusali oil pipeline system and an oil-loading terminal at Djusali were completed in order to reduce oil transportation costs from the Kumkol project in Kazakhstan and the permit to operate the pipeline was issued by the Kazakhstan Ministry of Energy and Mineral Resources.

Terminals

Construction of a permanent sea terminal at Varandey on the Barents Sea was completed in 2008, and the sea terminal has the capacity to receive and reload up to 240,000 bpd (12.0 million tonnes per year). The project includes a stationary, ice-resistant loading terminal at sea, an underwater pipeline, a system of onshore reservoirs and an offshore transshipment base. We currently transport crude oil (mainly from the Yu. Khylchuyu field in Timan-Pechora) inbound to the terminal by pipeline and outbound from this terminal with ice-breaking shuttle tankers through the Barents Sea to a floating reservoir in the ice-free waters off Murmansk. The crude oil is then loaded onto long distance tankers, which transport it to markets in Western Europe and the United States. The expanded Varandey terminal is a key part of our strategy to increase our ability to transport oil to markets in Europe, the United States and Southeast Asia.

In 2002, we commenced the construction of a terminal located in Vysotsk, Vyborg's outer harbour on the Baltic Sea. Construction of the Vysotsk terminal was completed in 2006. The current capacity of the terminal is 15.0 million tonnes per year, and it can handle crude oil, fuel oil, vacuum gas oil and diesel.

We also own an export terminal at the port of Svetly in the Kaliningrad region (with a total capacity of 4.0 million tonnes per year). The Svetly terminal primarily exports crude oil produced by OOO LUKOIL-Kaliningradmorneft, our subsidiary operating in the Kaliningrad region, as well as refined products.

In April 2012, our 50/50 Spanish joint venture opened a new oil product terminal with a total capacity of 35.31 mmcf (1.0 mmcm) in the port of Barcelona, Spain.

Gas Transportation

We transport most of our gas through the UGSS, which is responsible for gathering, transporting, dispatching and delivering substantially all natural gas supplies in Russia and is owned and operated by Gazprom. The UGSS transports natural gas from fields in Western Siberia and the Volga region towards the more heavily populated regions of European Russia, and onward to other CIS countries and Europe. Under Russian law, Gazprom is obliged to provide third-party access to the UGSS as long as there is spare transport capacity at the relevant time and place requested, the proposed gas shipments meet established quality and technical standards, input and output connections and quality control stations are available and customer demand exists at the relevant time. Historically, Gazprom has been able to deny third-party gas producers access to the UGSS, citing a lack of spare capacity.

Gazprom's management board has approved a plan to expand and upgrade facilities as necessary to better accommodate access requests from third-party gas producers. The costs of these expansions and upgrades would be borne by the third-party gas producers, either through increased transportation tariffs or loans to Gazprom which would be repaid through reduced transportation tariffs. In either case, Gazprom will retain ownership and operation of the UGSS and may still be able to influence access to the UGSS by application of access criteria other than capacity constraints. See "*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—We face several risks in connection with the implementation of our strategy to develop our natural gas operations.*"

Refined Products Transportation

Transportation of refined products in Russia is carried out by railway transport and the pipeline system of Transnefteproduct, a subsidiary of Transneft. Transnefteproduct is a state-owned refined product pipeline monopoly. We 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.

Competition

The oil and gas industry is intensely competitive. We compete with other major Russian oil and gas companies and major international oil and gas companies. Many of our international competitors have substantially greater financial 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 exploration and production licences at auctions or tenders conducted by governmental authorities;
- acquisition of other companies which 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 which may be scarce;
- recruitment of qualified and experienced personnel;
- acquisition of existing retail outlets or of sites for new retail outlets; and
- acquisition of or access to refining capacity.

In March 2013, Rosneft completed its acquisition of BP's 50% stake in TNK-BP, resulting in it acquiring 100% control over TNK-BP. As a result of this acquisition, Rosneft became the world's largest listed oil company by output, with production estimated at more than 4.5 million barrels a day. See "*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—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*" for more information about the risks related to our ability to compete effectively with Russian oil and gas and international oil companies.

The integrated oil and gas industry is currently subject to several important influences which impact the industry's competitive landscape. In recent years, the oil and gas industry has experienced consolidation, as well as increased deregulation and integration in strategic markets. In addition, our ability to remain competitive will require, among other things, management's continued focus on reducing unit costs and improving efficiency, maintaining long-term growth in our reserves and production through continued technological innovation and our ability to capture international opportunities.

In addition to intense competition, oil and gas companies are also facing increasing demands to conduct their operations in a manner consistent with environmental and social goals. Investors, customers and governments are more actively following the oil industry's performance on environmental responsibility and human rights, including performance with respect to the development of alternative and renewable fuel resources.

As a result of these influences and other factors, we expect competition to intensify. A number of other Russian oil and gas companies, as well as foreign oil and gas companies, are permitted to compete for licences and to offer services in Russia, increasing the competition which we face domestically. We also expect competition to increase domestically and internationally due to the limited quantities of unexploited and unallocated oil and gas reserves.

Credit Ratings

We are currently rated by three rating agencies: Moody's, Fitch and Standard & Poor's. Our ratings as of the date of this prospectus are as follows:

Moody's		**Fitch**		**Standard & Poor's**	
Long term implied	Baa2	Long term	BBB-	Long term	BBB
Senior unsecured	Baa2	Short term	F3	Senior unsecured	BBB
Outlook	Stable	Outlook	Stable	Outlook	Stable

The notes have been assigned a rating of Baa2 by Moody's, BBB- by Fitch and BBB by Standard & Poor's.

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 notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the notes. The ratings do not address the marketability of the notes or any market price. Any change in the credit ratings of the notes or our company could adversely affect the price that a subsequent purchaser will be willing to pay for the notes. We recommend that you analyse the significance of each rating independently from any other rating. Each of Moody's, Fitch and Standard & Poor's is established in the European Union and is registered under the CRA Regulation. As such, each of Moody's, Fitch and Standard & Poor's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

Health, Safety and Environment

Our operations are subject to a number of environmental laws and regulations in Russia and each of the other countries in which we operate. These laws govern, among other things, air emissions, wastewater discharges and discharges to the sea, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety. As with our competitors, environmental liability risks are inherent in our operations. We have environmental liabilities due to past activities which have caused pollution of land, disturbance to land and generation of waste oils, sludge and drill cuttings. Additionally, we also have long-term obligations concerning the decommissioning of operational facilities and the remediation of soil or groundwater at certain of our facilities and liability for waste disposal or contamination on properties owned by others.

	2012
Air emissions, *th. tonnes*	724
Waste water discharge, *million cubic metres*	2.3
Recycling and burial of toxic waste, *th. tonnes*	1,021
Area of contaminated lands, *ha*	523
Number of accidents with environmental damage	42
Air emissions, *th. tonnes*	724

We have undertaken significant efforts and have made significant expenditures to comply with environmental regulations. However, additional financial reserves or compliance expenditures could be required in the future due to changes in law, new information on environmental conditions or other unforeseen events, and those expenditures could have a material adverse effect on our business, financial condition or results of operations.

Russian legislation provides a basis for requiring those violating environmental regulations to remediate any environmental damage such violations have caused. However, environmental authorities have generally imposed relatively low fines for breaches of environmental and sanitation standards in what is effectively a ''pay-to-pollute'' scheme. Compensation also may be payable for any damage caused. Nevertheless, we are committed to a long-term proactive policy to address environmental concerns and actively pursue policies which are designed to reduce pollution and its effects.

We allocate funds in the amounts necessary to minimise risks of environmental loss and to comply with all pertinent environmental regulations. Although our operating and capital expenditures on the prevention, control, abatement or elimination of air, water and solid waste pollution are often not incurred as separately identifiable transactions, they often form a part of larger transactions, such as normal maintenance expenditures. We also create provisions for future environmental remediation. We believe our provisions are sufficient, based upon known requirements, and we do not believe that our costs will differ significantly from those of other companies engaged in similar industries, or that our competitive position will be adversely affected as a result.

Our Petrotel refinery in Romania and our Bourgas refinery in Bulgaria require the remediation of a substantial amount of environmental pollution which pre-dated our acquisition of these facilities. At the time of our acquisition of the Petrotel refinery in 1998 and 1999, 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 remediate 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 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. We have implemented procedures to maintain a buffer zone around the location of the nuclear explosions. However, we cannot assure you that further ground water contamination of the surface soil will not occur.

In 2009, our management committee approved the LUKOIL Group Environmental Safety Programme for 2009-2013, 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, which are structured in eight sub-programmes: clean air, clean water, waste, reclamation, accident suppression and avoidance, research and experimental activities, ecological management, and ecological monitoring. Our priority targets include reducing air emissions, reducing water consumption, reducing wastewater discharge, improving waste management and rehabilitating contaminated lands. In July 2011, our management committee approved a 2011-2013 update to the Group's Environmental Safety Programme and associated financing in the amount of approximately $2.0 billion for the 2011-2013. In 2012, the Group spent $754 million on environmental safety measures, compared with $718 million in 2011 and $715 million in 2010.

We believe that our approach to prevention of pollution by means of adopting low-waste, environment-friendly technologies is the best way to achieve further improvement of the environmental impact of our activities. This requires implementation of a clean production strategy, and such strategy is now the basis of our environmental policy.

Employees

We had an average of approximately 112,000, 120,300 and 130,000 employees in 2012, 2011 and 2010, respectively. We believe that our relations with our employees are satisfactory.

Insurance

The insurance industry in the Russian Federation and certain other areas where we have operations is still developing. Our management believes that we have adequate property damage coverage for our main production assets. In respect of third party liability for property and environmental damage arising from accidents on our property or relating to our operations, we have insurance coverage that is generally higher than insurance limits set by local legal requirements. Our management believes that we have adequate insurance coverage of the risks which could have a material effect on our business, financial condition or results of operations. However, there is a risk that we may not have adequate insurance coverage. See "*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—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*".

MANAGEMENT

Members of the Board of Directors and the Management Committee

The current members of our Board of Directors are as follows:

Name	Position at LUKOIL	Date of birth
ALEKPEROV, Vagit Yusufovich	Director, President and Chairman of the Management Committee	1 September 1950
BLAZHEEV, Victor Vladimirovich	Non-Executive Director	10 January 1961
GRAYFER, Valery Isaakovich	Chairman of the Board of Directors	20 November 1929
IVANOV, Igor Sergeevich	Non-Executive Director	23 September 1945
MAGANOV, Ravil Ulfatovich	Director, First Executive Vice President for Exploration and Production and member of the Management Committee	25 September 1954
MATZKE, Richard H.	Non-Executive Director	26 February 1937
MIKHAILOV, Sergei Anatolyevich	Non-Executive Director	15 February 1957
MOBIUS, Mark	Non-Executive Director	17 August 1936
MOSCATO, Guglielmo Antonio Claudio	Non-Executive Director	10 June 1936
PICTET, Ivan	Non-Executive Director	8 March 1944
SHOKHIN, Alexander Nikolaevich	Non-Executive Director	25 December 1951

The current members of our Management Committee who are not members of our Board of Directors are as follows:

Name	Position at LUKOIL	Date of birth
BARKOV, Anatoly Alexandrovich	Vice President for General Affairs, Corporate Security and Communications	19 May 1948
FEDOTOV, Gennady Stanislavovich	Vice President for Economics and Planning	7 October 1970
FEDUN, Leonid Arnoldovich	Vice President for Strategic Development	5 April 1956
KHAVKIN, Evgueni Leonidovich	Vice President and Chief of Staff of LUKOIL	1 January 1964
KHOBA, Lyubov Nikolaevna	Vice President and Chief Accountant	19 January 1957
KUKURA, Sergei Petrovich	First Vice President for Economics and Finance	31 October 1953
MALYUKOV, Sergei Nikolaevich	Vice President for Control and Internal Audit	8 December 1954
MASLIAEV, Ivan Alexeyevich	Vice President and General Counsel	21 May 1958
MATYTSYN, Alexander Kuzmich	Vice President for Finance	7 August 1961
MOSKALENKO, Anatoly Alekseyevich	Vice President for Human Resources Management and Corporate Structure Development	31 May 1959
NEKRASOV, Vladimir Ivanovich	First Vice President for Refining, Marketing and Distribution	31 March 1957
SUBBOTIN, Valery Sergeevich	Vice President for Sales and Supplies	28 March 1974
VOROBYOV, Vadim Nikolaevich	Vice President for Petroleum Products Sales Coordination	16 April 1961

The business address of our directors and members of our Management Committee is 11 Sretensky Bulvar, Moscow 101000, Russian Federation, which is our registered address.

Director Biographies

Vagit Yusufovich Alekperov

Mr. Alekperov has served as our President and as the Chairman of our Management Committee since 1993. He also serves as a member of our Board of Directors and as the Chairman of the Supervisory Board of LUKOIL INTERNATIONAL GmbH. Since 2009, Mr. Alekperov has also served as a member of the Board of Directors of OOO NOC (National Oil Consortium). From 1992 to 1993, Mr. Alekperov served as the President of the oil company Langepasuraikogalymneft. From 1993 to 2000, he also served as the Chairman of our Board of Directors. From 1990 to 1991, he served as Deputy Minister and then First Deputy Minister of the Ministry of Oil and Gas of the Soviet Union. In 1974, Mr. Alekperov earned a degree in Economics and Engineering from the Azizbekov Institute of Oil and Chemistry in Azerbaijan. He also holds a doctorate degree in economics and is a fellow of the Russian Academy of Natural Science.

Victor Vladimirovich Blazheev

Mr. Blazheev has served as a member of our Board of Directors since 2009. He also serves as a Chairman of the Audit Committee. In addition he has acted as Rector of Moscow State Academy of Law named after O.E. Kutafin since 2007. From 1994 to 2007, he was a lecturer and administrator occupying various positions at Moscow State Academy of Law. Mr. Blazheev graduated from the evening department of the

All Union Extramural Law Institute (AELI) in 1987 and completed a post-graduate program at AELI/Moscow Law Institute in the department of civil litigation in 1990.

Valery Isaakovich Grayfer

Mr. Grayfer has served as the Chairman of our Board of Directors since 2000 and has been a member of our Board of Directors since 1996. In addition, Mr. Grayfer served as the General Director of OAO RITEK from 1992 until early 2010 and has served as the Chairman of the Board of Directors of OAO RITEK since 2010. He also has served as a member of the Board of Directors of OAO Kogalymnefteprogress since 2007 and was a member of the Board of Directors of ZAO Ritek Vnedreniye from 1997 until 2011. He served as the General Director of OAO Nazymgeodobycha from 2006 to 2007. From 1985 to 1990, he served as Deputy Minister of the Ministry of Oil and Gas of the Soviet Union in charge of the Chief Tyumen Production Division for the oil and gas industry. Mr. Grayfer graduated from the I.M. Gubkin Moscow Oil Institute in 1952, where he earned a Ph.D. degree in science. He is a professor of the I.M. Gubkin Russian State University of Oil and Gas.

Igor Sergeevich Ivanov

Mr. Ivanov has served as a member of our Board of Directors since 2009. He also serves as Chairman of our Strategy and Investment Committee. Since 2012, Mr. Ivanov has also served as a member of the Board of Directors of ZAO "INFRA Engineering". Mr. Ivanov has served as President of a non-profit partnership Russian International Affairs Council since 2011. Since 2005, Mr. Ivanov has served as a Professor of the Department of World Political Processes of the Moscow State Institute of International Relations. From 1993 to 1998, Mr. Ivanov acted as First Deputy Minister of Foreign Affairs of the Russian Federation and from 1998 to 2004 as Minister of Foreign Affairs of the Russian Federation. From March 2004 to July 2007, Mr. Ivanov acted as Secretary of the Security Council of the Russian Federation. Mr. Ivanov graduated from the Maurice Thorez Moscow State Institute of Foreign Languages in 1969. He is corresponding member of the Russian Academy of Sciences and holds a doctorate in history. Mr. Ivanov also holds diplomatic rank of Ambassador Extraordinary and Plenipotentiary of the Russian Federation.

Ravil Ulfatovich Maganov

Mr. Maganov has served as a member of our Board of Directors and Management Committee since 1993 and as a First Executive Vice President for Exploration and Production since 2006. He also serves as a member of our Strategy and Investment Committee. Mr. Maganov has served as a member of the Supervisory Board of LUKOIL INTERNATIONAL GmbH since 2000, as well as the Chairman of the Board of Directors of LUKOIL Overseas Holding Ltd. since 2008 and the Chairman of the Supervisory Board of LUKOIL Overseas Holding GmbH since 2012. Mr. Maganov served as our First Vice President from 1994 to 2006 and as our Vice President from 1993 to 1994. He also served as the General Director of AOOT LUKOIL-Langepasneftegas, one of our subsidiaries, from May to November of 1993. Mr. Maganov worked in several capacities for Langepasneftegas from 1988 to 1993, including as General Director from 1991 to 1993. In 1977, he earned a degree in Engineering from the I.M. Gubkin Moscow Institute of the Oil and Gas Industry.

Richard H. Matzke

Mr. Matzke has served as a member of our Board of Directors since 2011. He also served as a member of our Board of Directors from 2002 to 2010. He is a member of our Strategy and Investment Committee. Mr. Matzke was President of Chevron Overseas Petroleum and a member of the Board of Directors of Chevron Corporation from 1989 to 1999 and served as a Vice Chairman of Chevron Corporation and Chevron-Texaco Corporation from 2000 until 2002. Mr. Matzke has served as a member of the Board of Directors of PHI Inc. since 2002 and as a member of the Board of Directors of Eurasia Drilling Company Limited since 2010. Mr. Matzke graduated from Iowa State University in 1959, Pennsylvania State University in 1961, and St. Mary's College in California in 1977. He holds a master of science degree in geology and a master's degree in business administration.

Sergei Anatolyevich Mikhailov

Mr. Mikhailov has served as a member of our Board of Directors since 2003. He serves as a member of our Audit Committee and is a member of our Human Resources and Compensation Committee. Mr. Mikhailov has served as the Deputy General Director of OOO Management Company "Kapital" since 2011. He also served as the General Director of ZAO Group Consulting from 2002 until January 2013.

Additionally, Mr. Mikhailov currently serves as the Chairman of the Boards of Directors of ZAO Kapital Asset Management, OOO Kapital Investment Funds Management Company, ZAO Kapital Group Asset Management and the non-profit partnership National Managers League, as well as a member of the Boards of Directors of OAO Spartak-Moscow Football Club, OAO Bank Petrocommerce, ZAO IFD Kapital, OAO "Globalstroy-Engineering", ZAO "Tushino 2018", OOO Management Company "Kapital", ZAO Management Group, OAO "ASVT" and the interregional non-profit organisation Manager Association . He is also a director of PanAtlantic Energy Group (formerly Vanco Overseas Energy Group). Mr. Mikhailov served as a member of the Board of Directors of OOO Management Consulting from 2011 until January 2013. Mr. Mikhailov is a member of the Board of Fund for social programmes endowment and a member of the Central Council of the Russian civil society, Sportive Russia. He served in the Russian military from 1974 to 1992. From 1992 to 1994, he served as Deputy Chairman of the Russian Federal Property Fund. From 1996 to 1997, Mr. Mikhailov was Head of the Restructuring and Investment Department of the Russian Ministry of Industry. Mr. Mikhailov graduated from the F.E. Dzerzhinsky Military Academy in 1979 and from the Plekhanov Russian Economics Academy in 1998. He is a professor and holds a Ph.D. degree in science and a doctorate in economics.

Mark Mobius

Mr. Mobius has served as a member of our Board of Directors since 2010. He also served as a member of our Board of Directors from 2002 to 2004. He serves as chairman of our Human Resources and Compensation Committee and is a member of our Strategy and Investment Committee. Mr. Mobius has held the position of Executive Chairman of Templeton Emerging Markets Group since August 2010 and he is also a member of the boards of directors of various entities affiliated with the Franklin Templeton group. Prior to August 2010, he was Executive Chairman of Templeton Asset Management Ltd. Mr. Mobius joined Franklin Templeton Investments in 1987. Since 2010, Mr. Mobius has also been a director of OMV Petrom SA. Mr. Mobius is also a director in H.E.A. (Holdings) Corporation Ltd. and Mayfair Hanoi Limited. Mr. Mobius graduated from the Massachusetts Institute of Technology in 1964. He earned a Ph.D. in economics and political science from the Massachusetts Institute of Technology, as well as bachelor's and master's degrees from Boston University.

Guglielmo Antonio Claudio Moscato

Mr. Moscato has served as a member of our Board of Directors since 2011. He currently serves as a Member of our Strategy and Investment Committee. Mr. Moscato has served as Chairman and CEO of Gas Mediterraneo & Petrolio Srl since 2005 and as Chairman and CEO of GMP Environment Srl since 2012. He has also been a member of the Board of Directors of Trevi S.p.A. and a member of the Advisory Committee of Canoel International Energy Ltd. since 2010. Previously, Mr. Moscato held the positions of Chairman of the Board of Directors of ENI S.p.A and Chairman and Chief Executive Officer of AGIP S.p.A. Mr. Moscato graduated from Polytechnic University of Milan in 1961.

Ivan Pictet

Mr. Pictet has served as a member of our Board of Directors since 2012. He also serves as a member of our Audit Committee. He has served as a member of the UN Investments Committee of the UN Joint Staff Pension Fund Board since 2005. He has been a member of the International Advisory Board of Blackstone Group International Limited since 1995, AEA European Advisory Board since 2010 and AEA Investors LP Global Advisory Board since 2011. Mr. Pictet is a member of the Board of Directors of Symbiotics since 2011, and Chairman of the Board of Directors of PSA International since 2012. Mr. Pictet is currently the President of the Fondation Pictet pour le Développement and President of the Fondation pour Genève. Mr. Pictet was managing partner of Pictet & Cie from 1981 to 2005 and its senior managing partner from 2005 to 2010. He earned a master's degree in economics from the School of Business Administration at the University of St. Gallen in 1970.

Alexander Nikolaevich Shokhin

Mr. Shokhin has served as a member of our Board of Directors since 2005. From 2005 to 2012, he served as Chairman of our Human Resources and Compensation Committee, and currently serves as a member of our Human Resources and Compensation Committee. From 1991 to 1994, he served as a Deputy Chairman of the Government of the Russian Federation, Minister of the Economy and Minister for Labour and Employment. From 1994 to 2002, he served as deputy of the State Duma of the Russian Federation. From 1996 to 1997, he served as the First Deputy Chairman of the State Duma of the Russian Federation and from 1997 to 1998, as the Chairman of the "Our Home is Russia" Duma faction. He served as the Deputy Chairman of the Government of the Russian Federation in 1998. Mr. Shokhin

served as Chairman of the Supervisory Board of Renaissance Capital from 2002 to 2006 and has served as President of the State University School of Economics since 1995. Mr. Shokhin has served as a member of the Board of Directors of Eurasia Drilling Company since 2007. Since 2008, Mr. Shokhin has also served as a member of the Board of Directors of OAO Russian Railways, OAO TMK, OAO Baltika, OAO Fortum (formerly OAO TGK-10) and since 2009 as a member of the Board of Directors of TNK-BP Limited. He has been the President of the Russian Union of Industrialists and Entrepreneurs since 2005. In 1974, he graduated from the Lomonosov Moscow State University. He holds a doctorate in economics and is also a professor. Mr. Shokhin is a member of the Russian President's Commission on Formation and Development of the Management Resources Reserve, a member of the Government's Council for Competitiveness and Entrepreneurship, and a member of the Russian Government's Commissions on administrative reform, legislative activities, high technologies and innovation, development of small and medium size businesses.

Potential Conflicts of Interest

There are no potential conflicts of interest between any duties of the members of the Board of Directors or the Management Committee of LUKOIL towards either LUKOIL or the Issuer and their private interests and/or other duties.

Additional Information About Our Directors

Interests of the Directors in Our Share Capital

The beneficial ownership interests of each director (including interests held through his connected persons and trusts, funds and other investment vehicles) in our share capital, the existence of which is known to such director, including through the exercise of reasonable diligence, whether or not such interests are held through another party, as of 31 March 2013, which is the most recent practicable date prior to the date of this prospectus, were as follows:

Name of Director	Ownership Interest
Vagit Yu. Alekperov	21.05%
Victor V. Blazheev	–
Valery I. Grayfer	0.011%
Igor S. Ivanov	–
Ravil U. Maganov	0.49%
Richard H. Matzke	0.00025%
Sergei A. Mikhailov	0.06%
Mark Mobius	–
Guglielmo Moscato	0.00006%
Ivan Pictet	0.007%
Alexander N. Shokhin	–

As of 31 March 2013, which is the most recent practicable date prior to the date of this prospectus, Mr. Leonid Fedun, a Vice President and member of our Management Committee, beneficially owned (including interests held through his connected persons and through trusts, funds and other investment vehicles) 9.6% of our share capital. See "*Risk Factors—Risks Relating to Our Business and the Oil and Gas Industry—Certain insiders own significant amounts of shares in LUKOIL, giving them a substantial amount of control over our management and business*". Each of the other members of our Management Committee who are not members of our Board owns less than 1% of our share capital.

Director and Management Compensation

Our shareholders determine the compensation of our directors at each annual shareholders meeting. In addition to a basic sum, Board members receive extra remuneration for assuming the responsibilities of the Chairman of our Board of Directors or a committee of our Board of Directors, for attending committee meetings in person, for transcontinental flights to attend Board or Committee meetings and for participation in conferences and other events at the written request of the Chairman of the Board. Remuneration and reimbursements payable to our Board members and members of the Audit Commission are determined by a decision taken at our general shareholders meeting. Remuneration of the Management Committee members consists of the following components:

- basic remuneration (salary as set out in the relevant employment contract);

- remuneration as set out in the relevant contract relating to service on the Management Committee;
- annual incentive bonuses;
- long-term incentive bonuses; and
- additional benefits of a social nature.

Total remuneration paid to members of the Board of Directors and the Management Committee for 2012 was RUB 1.2 billion (approximately $40.5 million).

On 4 December 2012, the Board of Directors approved a long-term incentive plan for LUKOIL and its subsidiaries' employees for the period from 2013 to 2017. The long-term incentive plan is based on assigned phantom shares and provides compensation consisting of two parts. The first part represents annual bonuses that are based on the number of assigned phantom shares and the amount of dividend per share. The second part is a bonus which is calculated upon completion of the plan, and its size depends on the number of assigned phantom shares and the difference between the share price at the beginning and at the end of the program. At least half of the accrued bonus award should be used to acquire shares of LUKOIL by the plan participants. Approximately 19.0 million phantom shares have been assigned to employees participating in the 2013-2017 long-term incentive plan.

Board Practices

Members of our Board of Directors are elected by a majority vote of shareholders at shareholders' meetings by cumulative voting. Directors serve until the next annual general shareholders meeting and may be re-elected an unlimited number of times. Our Board of Directors has the authority to make overall management decisions for us, except those matters reserved to our general shareholders meeting. The current term of office for each of our directors expires at our next annual general shareholders meeting, which will take place in June 2013.

We also maintain an Audit Committee of the Board of Directors. The Audit Committee analyses annual independent external audits of LUKOIL's statutory accounts and the Group's financial statements prepared in accordance with U.S. GAAP and prepares certain recommendations to the Board of Directors related to these audits. Its responsibilities include making recommendations for selection of the company's auditor, evaluating the auditor's report and determining whether the auditor meets the auditor independence requirements. The Audit Committee is elected from among the non-executive members of the Board of Directors (who are members of our Board of Directors who are not also members of our Management Committee) and consists of at least three persons. At least one member of the committee must be an independent director if our Board of Directors has an independent director. The Audit Committee members are elected at the meeting of the new membership of the Board of Directors for a period lasting until the election of the next Board of Directors at our general shareholders meeting. The current chairman of the committee is Victor Blazheev and the other committee members are Sergei Mikhailov and Ivan Pictet.

Our Human Resources and Compensation Committee of the Board of Directors determines criteria for selecting, and preliminarily evaluates candidates for, member of the Board of Directors, member of the Management Committee and position of the President of the company and makes a preliminary evaluation of the candidates to the Management Committee and to the position of the President. The committee also considers and prepares recommendations for the Board of Directors to be used for making decisions on matters related to human resources and compensation of members of the company's management bodies and the Audit Commission. The Human Resources and Compensation Committee is elected from among the non-executive members of the Board of Directors (who are members of our Board of Directors who are not also members of our Management Committee) and consists of at least three persons. At least one member of the committee must be an independent director if our Board of Directors has an independent director. The members of the committee are elected at the meeting of the new membership of the Board of Directors for a period lasting until the election of the next Board of Directors at our general shareholders meeting. The current chairman of the committee is Mark Mobius and the other committee members are Alexander Shokhin and Sergei Mikhailov.

Our Strategy and Investment Committee of the Board of Directors prepares proposals for the Board of Directors for establishing priorities in our activities and in the development of our long-term development strategy. Its responsibilities also include making recommendations to the Board of Directors on the amounts of dividends and procedure for their payment. The Strategy and Investment Committee is elected from among the members of our Board of Directors and consists of at least three

persons. At least one member of the committee must be an independent director if our Board of Directors has an independent director. The members of the committee are elected at the meeting of the new membership of the Board of Directors for a period lasting until the election of the next Board of Directors at our general shareholders meeting. The current chairman of the committee is Igor Ivanov and the other committee members are Ravil Maganov, Richard Matzke, Mark Mobius and Guglielmo Moscato.

Our shareholders appoint our President, who is also the Chairman of our Management Committee, for a term of five years. Our Board of Directors determines the principal terms and conditions of the President's employment. The President is responsible for the day-to-day management of our activities. Our Management Committee is determined annually by our Board of Directors and currently consists of 15 members. The President proposes the size of the Management Committee and candidates for membership of the Management Committee to our Board of Directors for approval. Members of our Management Committee serve until our Board of Directors confirms the new members of our Management Committee. The Management Committee is our collective executive body and, under the direction of its Chairman, is responsible for our day-to-day management.

Our Audit Commission verifies the accuracy of our financial reporting under Russian law and controls our financial activity. The members of our Audit Commission are elected annually at each annual general shareholders meeting and serve until the following annual shareholders meeting and consists of three members. Members of our Audit Commission may be shareholders, but may not be members of our Board of Directors or Management Committee or President of our company. Remuneration payable to the members of our Audit Commission is approved at our general shareholders meeting. The Audit Commission has the right to call an extraordinary shareholders' general meeting and may conduct an audit of our financial and business records at any time. In addition it must conduct an audit if resolved at the general meeting of the shareholders or at the request of the Board of Directors or any shareholder or group of shareholders owning at least 10% of our voting shares. Currently the members of our Audit Commission are Vladimir Nikitenko, Mikhail Maximov and Alexander Surkov.

Director Contracts

We have entered into contracts with the following directors:

- Vagit Yu. Alekperov
- Ravil U. Maganov

In June 2011, we entered into an employment contract with Mr. Alekperov governing the terms of his service as President of LUKOIL. The contract was amended in April 2013. The contract with Mr. Alekperov is for a term of five years and can be terminated early with one month's prior notice. If we terminate Mr. Alekperov's contract prior to its expiration in 2016, we are obligated to pay him severance in an amount equal to 24 months of his base salary.

In July 2005, we entered into an employment contract with Mr. Maganov governing the terms of his service as First Vice President of LUKOIL. The contract was amended in April 2006, August 2006 and October 2006, at which time Mr. Maganov's position was changed from First Vice President to First Executive Vice President of LUKOIL. The contract with Mr. Maganov was further amended in January 2008, November 2009, March 2010, October 2010 and April 2013. His contract has an indefinite term and may be terminated according to the Labour Code of the Russian Federation. Upon his termination by us, Mr. Maganov is entitled to severance in an amount equal to 12 months of his base salary. LUKOIL has also entered into an agreement with Mr. Maganov governing his membership on the Management Committee.

Except as disclosed above, there are no contracts existing or proposed between any of our directors and the Group.

THE ISSUER

The Issuer was incorporated as a private company with limited liability (*Besloten vennootschap met beperkte aansprakelijkheid*) under the laws of The Netherlands on 16 August 2006 (with its statutory seat in Amsterdam). Its number at the trade register is 34254022.

The authorised share capital of the Issuer at incorporation was €90,000 divided into 90,000 shares of par value €1 each. As of 31 March 2013, 18,000 shares have been issued and are fully paid at par value. All of the issued shares are owned by LUKOIL INTERNATIONAL GmbH, a wholly-owned subsidiary of LUKOIL.

The Issuer has three managing directors, Mr S.G. Nikitin, Mr. R.G.A. de Schutter and TMF Netherlands B.V., a private company with limited liability incorporated under the laws of The Netherlands. Mr. S.G. Nikitin is also Deputy Head of the Main Division of Treasury and Corporate Financing at LUKOIL. Mr. R.G.A. de Schutter is a member of several management and supervisory boards in The Netherlands. Messrs J.C.W. van Burg, R.W. de Koning, J.R. Baron de Vos van Steenwijk and F.W.J.J. Welman are the members of TMF Netherlands B.V.'s Management Board. The members of TMF Netherlands B.V.'s Management Board perform no principal activities outside of TMF Netherlands B.V. which are significant with respect to TMF Netherlands B.V. or the Issuer. None of the Issuer's directors has or had any interest in any transaction effected by the Issuer during the current or immediately preceding financial year (or during an earlier financial year and remain in any respect outstanding or unperformed), which is or was unusual in its nature or conditions or significant to the Issuer's business. There are no potential conflicts of interest between any duties of the directors of the Issuer (and the directors of TMF Netherlands B.V.) and the Issuer, TMF Netherlands B.V. and their respective private interests and/or their other duties.

The Issuer has no employees or property and no subsidiaries. The principal activity of the Issuer is to raise funds for LUKOIL.

The registered office of the Issuer is Luna ArenA, Herikerbergweg 238, 1101 CM Amsterdam Zuidoost, The Netherlands, and its phone number is +31 20 575 56 00. The business address of Mr S.G. Nikitin is 11 Sretensky Bulvar, Moscow 101000, Russian Federation, the business address of Mr. R.G.A. de Schutter is Dorpsstraat 50, 4152 ER Rhenoy, The Netherlands and the business address of TMF Netherlands B.V. and the members of TMF Netherlands B.V.'s Management Board is Luna ArenA, Herikerbergweg 238, 1101 CM Amsterdam Zuidoost, The Netherlands. Administrative services are provided to the Issuer by TMF Netherlands B.V. and by LUKOIL Accounting and Finance Limited of Rotunda Point, 11 Hartfield Crescent, London SW19 3RL, United Kingdom.

KPMG Accountants N.V., having its registered office at Laan van Langerhuize 1, 1186 DS Amstelveen, The Netherlands, was appointed to act as auditor of the Issuer for the years ended 31 December 2012 and 2011. KPMG Accountants N.V. is a member of the Koninklijk Nederlands Instituut van Registeraccountants (Royal Netherlands Institute of Registered Accountants).

Financial Statements

The Issuer's fiscal year ends on 31 December of each year. The Issuer's audited financial statements as of and for the years ended 31 December 2012 and 31 December 2011 were prepared in accordance with Book 2, Part 9 of the Netherlands Civil Code and are included elsewhere in this prospectus.

ADDITIONAL INFORMATION REGARDING THE COMPANY

Principal Interests in LUKOIL

The following table sets out details, in so far as is known to LUKOIL, as of 31 March 2013 (being the latest practicable date prior to the date of this prospectus), 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. Other than Mr. Alekperov, we do not believe that any single shareholder beneficially owns more than 10% of our ordinary shares.

Name of Shareholder(1)	Percent of issued ordinary share capital
Non-banking credit organisation ZAO "National Settlement Depository" (nominee)(2)	81.1%
ZAO ING Bank Eurasia (nominee)	10.4%

(1) For information on the beneficial ownership interests of our directors in LUKOIL, please see "*Management—Additional Information About Our Directors—Interests of the Directors in Our Share Capital*".

(2) This includes 9.2% of shares owned by LUKOIL Investments Cyprus Ltd, our wholly-owned subsidiary. In June 2012, we began implementing a repurchase plan through LUKOIL Investments Cyprus Ltd. with respect to our outstanding ordinary shares. We have reserved $2.5 billion for these repurchases and expect to complete the repurchase plan by mid-2015.

Certain Interested Party Transactions and Relationships

Except as set out below, none of our directors has or had any interest in any transaction effected by us during the current or immediately preceding three financial years (or during an earlier financial year and remain in any respect outstanding or unperformed), which is or was unusual in its nature or conditions or significant to our business except as disclosed in the following paragraphs.

LUKOIL Garant

LUKOIL Garant is a private pension fund that operates a benefit plan covering the majority of our employees. It also provides pension benefits and services to employees of other companies that are not related to us. Mr. Matytsyn, a member of LUKOIL's Management Committee, is a member of the Council of the Fund, which is the governing board of LUKOIL Garant. As a result, LUKOIL may be considered to have influence over LUKOIL Garant through its management bodies even though the company does not have direct legal control. See Note 14 "*Pension benefits*" to our consolidated financial statements for the year ended 31 December 2012 included elsewhere in this prospectus for more information on the pension benefits we provide through LUKOIL Garant.

ConocoPhillips

On 24 March 2010, ConocoPhillips announced plans to dispose of half 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 Limited signed a stock purchase agreement with Springtime Holdings Limited (Springtime), a wholly-owned subsidiary of ConocoPhillips, under which LUKOIL Finance Limited 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 Limited 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. In February 2011, ConocoPhillips announced that it had completed the sale of its remaining holding in LUKOIL by selling in the open market.

In August 2012, we acquired ConocoPhillips' 30% joint venture interest in NMNG and certain related assets for $604 million.

Transactions with Equity Affiliates and Other Related Parties

We engage in transactions with equity affiliates and other related parties in the ordinary course of business that include the sale and purchase of crude oil and refined products and the purchase of construction and processing services. Prior to the third quarter of 2010, related party sales and purchases of oil and oil products were primarily to and from affiliated companies and ConocoPhillips. Related party processing services were provided by affiliated refineries. As a result of the purchase of LUKOIL's shares by LUKOIL Finance Limited from ConocoPhillips in September 2010, ConocoPhillips ceased to be a related party of the Group. See also Note 20 ''*Related party transactions*'' to our consolidated financial statements for the year ended 31 December 2012 for more information on certain of these transactions.

Mr. Mikhailov is a member of LUKOIL's Board of Directors and is also a member of the Board of Directors of OAO ''Globalstroy-Engineering''. We have entered into a strategic agreement with OAO ''Globalstroy-Engineering'' for the ongoing provision of construction, engineering and technical services. The volume of these services is based on our capital construction programme, which is re-evaluated on an annual basis. We estimate the aggregate amount paid to OAO ''Globalstroy-Engineering'' in connection with its services to the Group in 2012 was approximately $225 million. We estimate that we will pay approximately $232 million to OAO ''Globalstroy-Engineering'' for its services in 2013. See also ''*Management's Discussion and Analysis of Financial Condition and Results of Operations— Contractual Obligations, Other Contingencies and Off Balance Sheet Arrangements—Capital Commitments and Contractual Obligations*''.

In addition, Mr. Mikhailov serves as a member of the Board of Directors of OAO Bank Petrocommerce, as well as Mr. Matytsyn who also serves as a member of our Management Committee. Mr. Fedun, a member of our Management Committee, is also Chairman of the Board of Directors of OAO Bank Petrocommerce. In 2011-2012, LUKOIL entered into two overdraft loan agreements with OAO Bank Petrocommerce totalling $103.2 million. Mr. Mikhailov also serves as a member of the Board of Directors of PanAtlantic Energy Group (formerly Vanco Overseas Energy Group), which is a joint venture partner in a number of our projects in Ghana, Cote d'lvoire and Romania.

Mr. Matzke and Mr. Shokhin are members of LUKOIL's Board of Directors and are also members of the Board of Directors of Eurasia Drilling Company Ltd. (EDC). EDC provides exploration and development well drilling services to the Group, including platform drilling services in the Northern Caspian Sea for our Yu. Korchagin project. EDC entered into the onshore drilling and workover services business in December 2004 by acquiring substantially all of our onshore drilling assets and entered into the offshore drilling business by acquiring certain of our offshore drilling assets in December 2006. In 2011, we sold our Kaliningrad drilling business (including four rigs) to EDC. We estimate the aggregate amount paid to EDC in 2012 in connection with its drilling services was approximately $1,521 million.

Mr. Grayfer is the Chairman of LUKOIL's Board of Directors and is also a shareholder and member of the Board of Directors of OAO Kogalymnefteprogress. In addition, Mr. Grayfer owns a 23.8% interest in OAO Kogalymnefteprogress. In the ordinary course of business, OAO Kogalymnefteprogress renders services to LUKOIL in the amount of approximately $21.5 million per year.

Litigation and Claims

Other than the proceedings described in the four bulleted paragraphs directly following this paragraph, there are no and have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware) during the 12 months preceding the date of this prospectus, which may have, or have had in the recent past, significant effects on our Group's financial position or profitability:

- 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*). The Colorado Court of Appeals declined to dismiss the case based on forum non conveniens and the case was remanded to the District Court. In June 2009, three creditors of ADC filed an Involuntary Bankruptcy Petition putting ADC into bankruptcy. In November 2009, after adding a claim, ADC removed the case from the District Court to the U.S. Bankruptcy Court. On 28 October 2010, the U.S. Bankruptcy Court granted LUKOIL's Motion for Remand and Abstention and remanded the case to the District Court. On 20 October 2011, the District Court dismissed all claims in the lawsuit against LUKOIL. ADC filed a notice of appeal on 17 April 2012. On 23 August 2012, the Court of Appeals affirmed the Denver District Court's dismissal for lack of jurisdiction. ADC filed a Petition for Rehearing, which was denied on 20 September 2012. ADC filed a Petition for Writ of Certiorari in the Colorado Supreme Court on 18 October 2012. We filed our response on 1 November 2012. As of the date of this prospectus, the Colorado Supreme Court has not indicated whether it will consider this case.

- On 6 January 2012, ADC filed a lawsuit in the U.S. District Court for the District of Colorado (federal court) reasserting almost identical claims asserted in the aforementioned lawsuit and dismissed by the Denver District Court (state court) notwithstanding ADC's appeal of the state court's decision. We filed a Motion to Dismiss and discovery has been stayed pending further action. LUKOIL plans to seek dismissal of the case and vigorously defend the matter.

- On 29 December 2011, Getty Petroleum Marketing Inc. (GPMI) filed a complaint against LUKOIL North America LLC (LNA) and LUKOIL Americas Corporation (LAC), our indirect wholly-owned subsidiaries operating in the Unites States. GPMI had been a subsidiary of LAC until 28 February 2011 when we completed the sale of the entire interest in GPMI to Cambridge Petroleum Holding Inc. On 16 November 2009, LNA purchased certain assets of GPMI for $120 million in cash and assumed certain related liabilities for approximately $64 million. The complaint seeks to recover assets sold to LNA and damages in an unspecified amount alleging that the sale of assets constituted a fraudulent conveyance under common law and the New York Debtor and Creditor statute. On 14 September 2012, GPMI filed a first amended complaint in this action which added as defendants LUKOIL and former officers of GPMI, Vincent DeLaurentis, Vadim Gluzman, Michael Hantman, Michael Lewis and Semyon Logovinskiy. In addition to the constructive fraudulent conveyance alleged in the first complaint, the amended complaint added, *inter alia*, causes of action for breach of fiduciary duties against former GPMI officers. The defendants answered the amended complaint and asserted counterclaims on 14 November 2012. Trial is currently scheduled for 20 May 2013.

- The Group was involved in a cost recovery dispute with the Republic of Kazakhstan, in which the Kazakh Government alleged that participants in the Karachaganak project recovered excessive costs. The Group's share of the claim is approximately $295 million. In December 2011, we (along with our consortium members) entered into a settlement agreement with the Republic of Kazakhstan whereby KazMunayGas revoked its claim and shall not in the future challenge recovery of the costs incurred before 31 December 2009. KazMunayGas also acquired a 10% interest in the Karachaganak project (by way of each consortium member transferring 10% of its interest in the project to the Republic of Kazakhstan). The settlement agreement entered into force on 28 June 2012.

We are also involved in various other claims and legal proceedings arising in the normal course of business. While these claims may seek substantial damages against us and are subject to uncertainty inherent in any litigation, we do not believe that the ultimate resolution of such matters will 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.

Other Information

LUKOIL's initial charter was registered with the Moscow Registration Chamber on 22 April 1993 with a registration number of 24020, and the current version of the charter was registered with the Interdistrict

Inspectorate of the Federal Tax Service No. 46 for the city of Moscow on 7 July 2011 under state registration number 9117746935308. An amendment to the charter was registered on 11 July 2012. On 17 July 2002, LUKOIL was entered into the Unified State Registrar of Legal Entities under registration number 1027700035769. LUKOIL's registered address is 11 Sretensky Bulvar, Moscow 101000, Russian Federation, and our telephone number is +7 (495) 627 4444.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the notes which, subject to amendment, will be endorsed on each Definitive Note (as defined below) and will be attached and (subject to the provisions thereof) apply to the Global Notes.

The following sentence applies in respect of the 2018 notes:

The US$1,500,000,000 3.416 per cent. notes due 2018 (the ''**Notes**'', which expression includes any further Notes issued pursuant to Condition 16 and forming a single series therewith) of LUKOIL International Finance B.V. (the ''**Issuer**'') were authorised by a written resolution of the board of directors of the Issuer dated 9 April 2013.

The following sentence applies in respect of the 2023 notes:

The US$1,500,000,000 4.563 per cent. notes due 2023 (the ''**Notes**'', which expression includes any further Notes issued pursuant to Condition 16 and forming a single series therewith) of LUKOIL International Finance B.V. (the ''**Issuer**'') were authorised by a written resolution of the board of directors of the Issuer dated 9 April 2013.

The Notes are constituted by a trust deed dated 24 April 2013 (the ''**Trust Deed**'') to be entered into between the Issuer, OAO LUKOIL (the ''**Guarantor**'') and Citicorp Trustee Company Limited (the ''**Trustee**'', which expression shall include all persons for the time being who are the trustee or trustees under the Trust Deed) as trustee for the holders of the Notes. These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed. The Issuer and the Guarantor have entered into an agency agreement dated 24 April 2013 in relation to the Notes (the ''**Agency Agreement**'') with the Trustee and Citibank, N.A., London Branch, as principal paying agent (the ''**Principal Paying Agent**'' and, together with any other paying agents appointed under the Agency Agreement, the ''**Paying Agents**'') and as transfer agent (the ''**Transfer Agent**'') and Citigroup Global Markets Deutschland AG as registrar (the ''**Registrar**''). The Registrar, Paying Agents and Transfer Agent are together referred to herein as the ''**Agents**''. Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the specified office of the Trustee, being at the date hereof Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom, and at the specified offices of the Agents. The Noteholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them. Capitalised terms used but not defined in these Terms and Conditions shall have the respective meanings given to them in the Trust Deed.

1. Form and Denomination

The Notes are issued in fully registered form, without interest coupons attached, in denominations of US$200,000 or integral multiples of US$1,000 in excess thereof (''**authorised denominations**'') and, **provided that** the Notes may be transferred only in amounts not less than an authorised denomination. Title to the Notes shall pass by registration in the register (the ''**Register**'') which the Issuer shall procure to be kept by the Registrar. The Notes are initially issued in global, fully registered form, and will only be exchangeable for Notes in definitive, fully registered form (''**Definitive Notes**'') in the limited circumstances set forth in the Agency Agreement.

2. Guarantee and Status

(a) ***Guarantee***

The Guarantor has in the Trust Deed unconditionally and irrevocably guaranteed the payment when due of all sums expressed to be payable by the Issuer under the Trust Deed and the Notes (the ''**Guarantee**''). The Guarantor's obligations in respect of the Guarantee are contained in the Trust Deed.

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

(b) ***Status***

The Notes constitute unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. Subject

to Condition 4, each of the Issuer and the Guarantor shall ensure that at all times the claims of the Noteholders against them under the Notes 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.

3. **Register, Title and Transfers**

(a) ***Register***

The Registrar shall maintain the Register in respect of the Notes in accordance with the provisions of the Agency Agreement. The Register shall be kept at the specified office for the time being of the Registrar and shall record the names and addresses of the holders of the Notes, particulars of the Notes and all transfers thereof. In these Conditions, the ''**holder**'' of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and ''**Noteholder**'' shall be construed accordingly.

(b) ***Title***

Title to the Notes will pass by and upon registration in the Register. The holder of each Note shall (except as otherwise required by a court of competent jurisdiction or applicable law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Definitive Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Definitive Note) and no person shall be liable for so treating such holder.

(c) ***Transfers***

Subject to Conditions 3(f) and 3(g) below, a Note may be transferred in whole or in part in an authorised denomination upon surrender of the relevant Definitive Note representing that Note, together with the form of transfer (including any certification as to compliance with restrictions on transfer included in such form of transfer endorsed thereon) (the ''**Transfer Form**''), duly completed and executed, at the specified office of the Transfer Agent or of the Registrar, together with such evidence as such Agent or the Registrar may reasonably require to prove the title of the transferor and the authority of the persons who have executed the Transfer Form. Where not all the Notes represented by the surrendered Definitive Note are the subject of the transfer, a new Definitive Note in respect of the balance not transferred will be delivered by the Registrar to the transferor in accordance with Condition 3(d). Neither the part transferred nor the balance not transferred may be less than the applicable authorised denomination.

(d) ***Registration and delivery of Definitive Notes***

Within five business days of the surrender of a Definitive Note in accordance with Condition 3(c) above, the Registrar shall register the transfer in question and deliver a new Definitive Note to each relevant holder at the specified office of the Registrar or (at the request of the relevant Noteholder) at the specified office of the Transfer Agent or (at the request and risk of such relevant holder) send it by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder.

(e) ***No Charge***

The registration of the transfer of a Note shall be effected without charge to the holder or transferee thereof, but against such indemnity from the holder or transferee thereof 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 transfer.

(f) ***Closed Periods***

Noteholders may not require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of such Note.

(g) ***Regulations concerning Transfer and Registration***

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer and registration of Notes set out in the First Schedule to the Agency Agreements. The regulations may be changed by the Issuer and the Guarantor with the prior written approval of the

Trustee, the Transfer Agent and the Registrar. A copy of the current regulations will be sent by the Registrar free of charge to any person who so requests and will be available at the specified office of the Registrar in London.

4. **Negative Pledge**

So long as any of the Notes remains 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 (as defined below) 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 (as defined below) 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 Notes or, as the case may be, the Guarantor's obligations under the Guarantee (x) are secured equally and rateably with such Relevant Indebtedness for so long as such Relevant Indebtedness is so secured or (y) have the benefit of such other guarantee, indemnity or other like obligations or such other security (in each case) as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Noteholders or (z) as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

5. **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.

(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.

6. **Interest**

The following sentence applies in respect of the 2018 Notes:

The Notes bear interest from the Issue Date (as defined below) at the rate of 3.416 per cent. per annum, payable in equal instalments semi-annually in arrear on 24 April and 24 October in each year, commencing on 24 October 2013.

The following sentence applies in respect of the 2023 Notes:

The Notes bear interest from the Issue Date (as defined below) at the rate of 4.563 per cent. per annum, payable in equal instalments semi-annually in arrear on 24 April and 24 October in each year, commencing on 24 October 2013.

The Notes will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event the Notes shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of the Notes up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Trustee or the Principal Paying Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions). If interest is required to be calculated for a period other than a semi-annual interest period ending on 24 April and 24 October in each year, it will 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.

7. **Redemption and Purchase**

(a) ***Final redemption***

The following sentence applies in respect of the 2018 Notes:

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 24 April 2018.

The following sentence applies in respect of the 2023 Notes:

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 24 April 2023.

(b) ***Redemption for tax reasons***

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at the principal amount thereof, together with interest accrued to the date fixed for redemption, if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it (or, if a Guarantee was called, the Guarantor) has or will become obliged to pay additional amounts as provided or referred to in Condition 9 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 24 April 2013 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 such notice of redemption 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 Notes (or the Guarantee, as the case may be) then due. Prior to the publication of any notice of redemption 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 Noteholders 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 Notes in respect of which any such notice of redemption is given under and in accordance with this Condition shall be redeemed on the date specified in such notice in accordance with this Condition.

(c) ***Issuer may compel sales of 144A Notes***

The Issuer may compel any beneficial owner of Notes sold pursuant to Rule 144A under the Securities Act to sell its interest in such Notes, or may sell such interest on behalf of such holder, if such holder is a U.S. person that is not a qualified institutional buyer (as defined in Rule 144A under

the Securities Act) and a qualified purchaser (as defined in Section 2(a)(51) of the Investment Company Act). Any sale by the Issuer on behalf of a beneficial owner shall be at a price equal to the least of (x) the purchase price therefor paid by the beneficial owner, (y) 100 per cent. of the principal amount thereof or (z) the fair market value thereof.

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

The following sentence applies in respect of the 2018 Notes:

The Issuer may also choose to redeem the Notes prior to 24 April 2018, in whole or in part, on not less than 30 nor more than 60 days' irrevocable notice to the Noteholders, by paying a redemption price equal to the sum of:

(i) 100% of the principal amount of the Notes to be redeemed, plus

(ii) the Applicable Premium

plus accrued and unpaid interest thereon, if any, to the redemption date.

The following sentence applies in respect of the 2023 Notes:

The Issuer may also choose to redeem the Notes prior to 24 April 2023, in whole or in part, on not less than 30 nor more than 60 days' irrevocable notice to the Noteholders, by paying a redemption price equal to the sum of:

(v) 100% of the principal amount of the Notes to be redeemed, plus

(vi) the Applicable Premium

plus accrued and unpaid interest thereon, if any, to the redemption date.

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) and (b) above and this paragraph (d). All Notes in respect of which any such notice of redemption is given under this Condition 7 shall be redeemed on the date specified in such notice in accordance with this Condition 7.

(e) ***Purchase***

The Issuer, the Guarantor and any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise at any price.

(f) ***Cancellation***

All Notes redeemed or purchased pursuant to this Condition 7 shall be cancelled forthwith and may not be held or resold. Any Notes so cancelled may not be reissued.

8. **Payments**

(a) ***Principal***

Payments of principal (whenever due) and interest due on redemption shall be made by the Paying Agents by U.S. Dollar cheque drawn on a bank in New York City, or by transfer to a U.S. Dollar account maintained by the payee with a bank in New York City and shall only be made upon surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Notes at the specified office of any Paying Agent.

(b) ***Interest***

Payments of interest (other than interest due on redemption) shall be made by the Paying Agents by U.S. Dollar cheque drawn on a bank in New York City, or by transfer to a U.S. Dollar account maintained by the payee with a bank in New York City not later than the due date for such payment.

(c) ***Payments subject to fiscal laws***

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 9. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) ***Payments on business days***

If the due date for any payment of principal or interest under this Condition 8 is not a business day, the holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition, "**business day**" means any day on which banks are open for business in the place of the specified office of the relevant Paying Agent and, in the case of payment by transfer to a U.S. Dollar account as referred to above, on which dealings in foreign currencies may be carried on both in New York City and in such other place.

(e) ***Record date***

Each payment in respect of a Note will be made to the person shown as the holder in the Register at the opening of business (in the place of the Registrar's specified office) on the fifteenth day before the due date for such payment. Any cheque will be mailed to the holder of the relevant Note at his address appearing in the Register.

(f) ***Agents***

The initial Agents and their initial specified offices are listed below. The Issuer and the Guarantor, acting together, reserve the right, with the written approval of the Trustee, to vary or terminate the appointment of all or any of the Agents at any time and appoint additional or other payment or transfer agents, **provided that** they will maintain (i) a Principal Paying Agent, (ii) Paying Agents and a Transfer Agent having specified offices in at least one major European city approved by the Trustee, being London so long as the Notes are admitted to the Official List of the Financial Conduct Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 and admitted to trading on the London Stock Exchange's EEA Regulated Market and (iii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income. Notice of any such change will be provided as described in Condition 17 below.

In this Condition, "**EEA Regulated Market**" means a "**regulated market**" as defined by Article 4(1)(14) of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

9. **Taxation**

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer or under the Guarantee by the Guarantor shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within The Netherlands or the Russian Federation or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer or (as the case may be) the Guarantor shall increase the relevant payment so as to result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note:

(a) held by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or the Guarantee by reason of its having some connection with The Netherlands or (as the case may be) the Russian Federation other than the mere holding of such Note or the benefit of the Guarantee; or

(b) where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts if it had surrendered the relevant Definitive Note on the last day of such period of 30 days; or

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000; or

(d) presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Definitive Note to another Paying Agent in a member state of the European Union.

In these Conditions, ''**Relevant Date**'' means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in New York City by or for the account of the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts or premium in respect of principal or interest (as the case may be) which may be payable under this Condition.

If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction other than (or in addition to) The Netherlands or the Russian Federation, respectively, references in these Conditions to The Netherlands or the Russian Federation shall be construed as references to The Netherlands or (as the case may be) the Russian Federation and/or such other jurisdiction.

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 Notes 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 Notes 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 Notes 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 Notes 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 Notes) 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 US$50,000,000 or (ii) the aggregate amount of the relevant Indebtedness, guarantee 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 US$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 Noteholders; 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 Noteholders 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 are 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 Notes; 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 Noteholders.

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

11. **Prescriptions**

Claims for the payment of principal and interest in respect of any Definitive Note shall be prescribed unless made within 10 years (for claims for the payment of principal) or five years (for claims for the payment of interest) of the appropriate Relevant Date.

12. **Replacement of Definitive Notes**

If any Definitive Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer and the Guarantor may reasonably require. Mutilated or defaced Definitive Notes must be surrendered before replacements will be issued.

13. **Meetings of Noteholders, Modification and Waiver**

(a) ***Meetings of Noteholders***

The Trust Deed contains provisions for convening meetings of Noteholders 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 meetings shall be held in accordance with the provisions set out in the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Notes 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 notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia,* (i) to modify the maturity of the Notes or the dates on which interest is payable in respect of the Notes, (ii) to reduce or cancel the principal amount of, or interest on, the Notes, (iii) to alter the method of calculating the amount of any payment in respect of the Notes, (iv) to change the currency of payment of the Notes, (v) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, or (vi) to modify or cancel the Guarantee, 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 Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (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 Notes outstanding shall be as valid and effective as a duly passed Extraordinary Resolution.

(b) ***Modification and Waiver***

The Trustee may agree with the Issuer and the Guarantor, without the consent of the Noteholders, to (i) any modification of any of the provisions of the Trust Deed or the Notes which is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (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 Notes or the Trust Deed which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and, if the Trustee so requires, shall be notified to the Noteholders as soon as practicable.

(c) ***Substitution***

The Trust Deed contains provisions permitting the Trustee to agree with the Issuer and the Guarantor, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of certain other entities in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such substitution, the Trustee may agree with the Issuer and the Guarantor, without the consent of the Noteholders, to a change of law governing the Notes and/or the Trust Deed, **provided that** such change would not in the opinion of the Trustee be materially prejudicial to the interests of Noteholders. Notice of any such substitution will be provided as described in Condition 17 below.

(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 Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Guarantor, the Trustee or any other Person, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders.

14. **Enforcement**

At any time after the Notes 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 Notes (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 Noteholders holding at least one-quarter in principal amount of the Notes outstanding and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Noteholder 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.

15. **Indemnification of the Trustee**

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 Noteholders 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.

16. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) and so that such further issue shall be consolidated and form a single series with the outstanding Notes. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition. Any such other securities shall be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders for the holders of securities of other series where the Trustee so decides.

17. **Notices**

Notices to the Noteholders shall be valid if sent to them by first class mail (airmail if overseas) at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, notices will be published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) or, if in the opinion of the Trustee such publication shall not be practicable, in any English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

18. **Currency Indemnity**

If any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer, failing whom the Guarantor, shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the specified office of the Registrar, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to

convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer or, as the case may be, the Guarantor and shall give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by the Trustee and will continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under the Trust Deed and/or the Notes or any other judgment or order.

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

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

20. **Arbitration**

(a) Any dispute or difference of whatever nature howsoever arising between the Issuer or, as the case may be, the Guarantor and any Noteholder (subject to Condition 14) under, out of or in connection with the Notes or the Guarantee (including a dispute or difference as to the breach, existence, termination or validity of the Notes 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 20(a)) by a panel of three arbitrators appointed in accordance with the Rules.

(b) 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.

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

(a) ***Governing law***

The Notes (including for the avoidance of doubt Condition 20), the Trust Deed and any non-contractual obligations arising out of or in connection with any one of them are governed by English law.

(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 England in connection with the Notes or the Trust Deed.

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

The Issuer and the Guarantor consent generally in respect of any Disputes to the giving of any relief or the issue of any process in connection with such 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 Disputes.

(d) ***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.

22. **Definitions**

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

"**Affiliate**" has the meaning ascribed to it under Rule 405 of the Securities Act;

The following definition applies in respect of the 2018 Notes:

"**Applicable Premium**" means, with respect to a Note at any time, the excess of (a) the present value at such redemption date of such Note, plus any required interest payments that would otherwise be due to be paid on such Note from such redemption date through 24 April 2018, together with any accrued and unpaid interest as of such redemption date, if any, calculated using a discount rate equal to the Treasury Rate at such redemption date plus 50 basis points, over (b) the principal amount of such Note, **provided that** if the value of Applicable Premium at any time would otherwise be less than zero, then in such circumstances for the purposes of these Conditions the value of Applicable Premium will be equal to zero.

The following definition applies in respect of the 2023 Notes:

"**Applicable Premium**" means, with respect to a Note at any time, the excess of (a) the present value at such redemption date of such Note, plus any required interest payments that would otherwise be due to be paid on such Note from such redemption date through 24 April 2023, together with any accrued and unpaid interest as of such redemption date, if any, calculated using a discount rate equal to the Treasury Rate at such redemption date plus 50 basis points, over (b) the principal amount of such Note, **provided that** if the value of Applicable Premium at any time would otherwise be less than zero, then in such circumstances for the purposes of these Conditions the value of Applicable Premium will be equal to zero.

"**Auditors**" means the auditors of the Group's U.S. GAAP consolidated financial statements for the time being or, if they are unable or unwilling to carry out any action requested of them under terms of the Notes, such other internationally recognised firm of accountants as may be approved in writing by the Trustee for this purpose;

"**business day**" means (except where expressly defined otherwise) a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar has its specified office;

"**Consolidated Assets**" means the total amount of assets appearing on the consolidated balance sheet of the Guarantor, prepared in accordance with U.S. GAAP, as of the date of the most recently prepared consolidated financial statements;

"**Closing Date**" means 24 April 2013;

"**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;

"**European Union**" means the European Union, including the countries of Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, The Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom but not including any country which becomes a member of the European Union after the Issue Date;

"**Event of Default**" has the meaning assigned to such term in Condition 10;

"**Group**" means the companies which are consolidated in the most recent accounts of the Guarantor prepared in accordance with U.S. 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;

''**Issue Date**'' means 24 April 2013;

''**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 Notes and the Guarantee, respectively or (c) the validity, legality or enforceability of the Notes or the Guarantee or the rights or remedies of the Noteholders under the Notes or the Guarantee.

''**Permitted Security Interest**'' means:

(a) any Security Interest existing on the Issue 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;

''**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 to whether a Subsidiary constitutes a Principal Subsidiary and will not be responsible to any Person for any loss occasioned by relying on such a certificate;

''**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;

"**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;

The following definition applies in respect of the 2018 Notes:

"**Treasury Rate**" means the yield to maturity at the time of computation of United States Treasury securities with a constant maturity most nearly equal to the period from the redemption date to 24 April 2018. The Issuer will obtain such yield to maturity from information compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) which has become publicly available at least two business days (but not more than five business days) prior to the redemption date (or, if such Statistical Release is not so published or available, any publicly available source of similar market data selected by the Issuer in good faith)); **provided, however, that** if the period from the redemption date to 24 April 2018 is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that if the period from the redemption date to 24 April 2018 is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used;

The following definition applies in respect of the 2023 Notes:

"**Treasury Rate**" means the yield to maturity at the time of computation of United States Treasury securities with a constant maturity most nearly equal to the period from the redemption date to 24 April 2023. The Issuer will obtain such yield to maturity from information compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) which has become publicly available at least two business days (but not more than five business days) prior to the redemption date (or, if such Statistical Release is not so published or available, any publicly available source of similar market data selected by the Issuer in good faith)); **provided, however, that** if the period from the redemption date to 24 April 2023 is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that if the period from the redemption date to 24 April 2023 is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used; and

"**U.S. Dollars**", "**US$**" or the sign "**$**" means such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts.

There will appear at the foot of the Conditions endorsed on each Definitive Note the name and specified office of the Agents as set out at the end of this prospectus.

TRANSFER RESTRICTIONS

Rule 144A Notes

In connection with its purchase of Rule 144A Notes, the purchaser hereof (the Investor), by virtue of its acceptance of this prospectus, will be deemed to represent, acknowledge and agree as follows:

1. It has not distributed this prospectus or any of its contents to any other person and has not disclosed any of the contents of the prospectus to any other person.

2. It (a) has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of an investment in the notes and is experienced in buying the securities of Russian companies or other emerging market companies, (b) has received and reviewed the prospectus and understands and accepts the substantial risks associated with an investment in the notes, (c) is able to bear a complete loss of its investment in the notes, (d) has the financial ability to bear the economic risk of an investment in the notes for an indefinite period of time and adequate means for providing for its current needs and possible contingencies and (e) has no need for liquidity with respect to its investment in the notes.

3. It is not relying on any investigation that the Managers, any of their affiliates or persons acting on their behalf may have conducted with respect to the notes, Russia, the Issuer or LUKOIL and none of such persons has made any representations to it, express or implied, with respect thereto and that the Managers have not made and are not making any representation as to the truth, accuracy or completeness of the information in the prospectus.

4. It is (a) a QIB that is also a QP, (b) not a broker-dealer which owns and invests on a discretionary basis less than US$25 million in securities of unaffiliated issuers, (c) not a participant-directed employee plan, such as a 401(k) plan, (d) acquiring such notes for its own account, or for the account of one or more QIBs each of which is also a QP, (e) not formed for the purpose of investing in the notes or the Issuer, and (f) aware, and each beneficial owner of such notes has been advised, that the sale of such notes to it is being made in reliance on Rule 144A.

5. It will, (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Notes in a principal amount that is not less than US$200,000 and (b) provide notice of these transfer restrictions to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in the Issuer's securities from one or more book-entry depositories.

6. It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and are "restricted securities" within the meaning of Rule 144 under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or for the account of one or more QIBs each of which is also a QP which can make the representations set out in paragraphs 4 and 5 above or (b) to non-U.S. persons (as defined in Regulation S) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States.

7. It understands that the Issuer has the power to compel any beneficial owner of Rule 144A Notes that is a U.S. person and is not a QIB and a QP to sell its interest in the Rule 144A Notes, or may sell such interest on behalf of such owner. The Issuer has the right to refuse to honour the transfer of an interest in the Rule 144A Notes to a U.S. person who is not a QIB and a QP and which cannot make the representations set out in paragraphs 4 and 5 above.

8. Anything herein to the contrary notwithstanding, the Investor shall notify any transferee to which it transfers Rule 144A Notes in accordance with Rule 144A that such transferee will be subject to the restrictions and procedures set forth herein.

9. The 2018 Rule 144A Notes will be represented by a 2018 Rule 144A Global Note and the 2023 Rule 144A Notes will be represented by a 2023 Rule 144A Global Note. Before any beneficial interests in the notes represented by the 2018 Regulation S Global Note or the 2023 Regulation S Global Note may be transferred to a person who takes delivery in the form of a beneficial interest in the 2018 Rule 144A Global Note or the 2023 Rule 144A Global Note, and *vice versa*, certain certifications will be required pursuant to the relevant agency agreement.

10. The Rule 144A Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will at all times bear a legend substantially to the following effect:

THE NOTES REPRESENTED HEREBY AND THE GUARANTEE THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE SECURITIES ACT) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND THE NOTES REPRESENTED HEREBY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (RULE 144A) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A QIB) THAT IS ALSO A QUALIFIED PURCHASER (A QP) WITHIN THE MEANING OF SECTION 2(a)(51) OF THE UNITED STATES INVESTMENT COMPANY ACT OF 1940 (THE INVESTMENT COMPANY ACT) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS EACH OF WHICH IS A QP WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN US$200,000 PRINCIPAL AMOUNT OF NOTES OR (2) TO A PERSON WHO IS NOT A U.S. PERSON (AS DEFINED IN REGULATION S) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT (REGULATION S), AND IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE HOLDER OF THE NOTES REPRESENTED HEREBY WILL, AND EACH SUBSEQUENT HOLDER OF THE NOTES REPRESENTED HEREBY IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES REPRESENTED HEREBY OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. TRANSFERS IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID *AB INITIO*, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THE NOTES REPRESENTED HEREBY, THE TRUSTEE OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR RESALES OF THE NOTES REPRESENTED HEREBY.

IF THE BENEFICIAL OWNER OF THE NOTES REPRESENTED HEREBY IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S, SUCH BENEFICIAL OWNER REPRESENTS THAT (1) IT IS A QIB THAT IS ALSO A QP; (2) IT IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN US$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (3) IT IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN; (4) IT IS HOLDING THE NOTES REPRESENTED HEREBY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, EACH OF WHICH IS A QP; (5) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THE NOTES REPRESENTED HEREBY; (6) IT, AND EACH ACCOUNT FOR WHICH IT HOLDS NOTES, WILL HOLD AND TRANSFER AT LEAST US$200,000 IN PRINCIPAL AMOUNT OF NOTES; (7) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITARIES AND (8) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES. THE BENEFICIAL OWNER OF THE NOTES REPRESENTED HEREBY ACKNOWLEDGES THAT IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THE NOTES REPRESENTED HEREBY IT IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S WHO IS NOT A QIB THAT IS ALSO A QP, THE ISSUER MAY (A) COMPEL IT TO SELL ITS INTEREST IN THE NOTES REPRESENTED HEREBY TO A PERSON WHICH IS (I) A U.S. PERSON WHICH IS A QIB AND A QP AND WHO IS OTHERWISE QUALIFIED TO PURCHASE THIS NOTE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) NOT A U.S. PERSON WITHIN THE MEANING OF REGULATION S OR (B) COMPEL THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THE NOTES REPRESENTED HEREBY TO THE

ISSUER OR AN AFFILIATE OF THE ISSUER OR TRANSFER ITS INTEREST IN THE NOTES REPRESENTED HEREBY TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER AT A PRICE EQUAL TO THE LEAST OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100% OF THE PRINCIPAL AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THE NOTES REPRESENTED HEREBY TO A U.S. PERSON WHICH IS NOT A QIB AND A QP AND WHICH CANNOT MAKE THE REPRESENTATIONS SET FORTH IN THE FIRST SENTENCE OF THE SECOND PARAGRAPH OF THIS LEGEND. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

BY ITS PURCHASE AND HOLDING OF THE NOTES REPRESENTED HEREBY (OR ANY INTEREST HEREIN), THE PURCHASER AND ANY TRANSFEREE HEREOF WILL BE DEEMED TO HAVE REPRESENTED AND AGREED EITHER THAT: (I) IT IS NOT AND FOR SO LONG AS IT HOLDS THE NOTES REPRESENTED HEREBY (OR ANY INTEREST HEREIN) WILL NOT BE (AND IS NOT ACQUIRING ANY NOTE REPRESENTED HEREBY DIRECTLY OR INDIRECTLY WITH THE ASSETS OF A PERSON WHO IS OR WHILE THE NOTES ARE HELD WILL BE) (A) AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (ERISA)) THAT IS SUBJECT TO TITLE I OF ERISA, (B) A "PLAN" DESCRIBED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), (C) ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE, OR ARE DEEMED TO INCLUDE, "PLAN ASSETS" BY REASON OF SUCH EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN THE ENTITY OR (D) ANY EMPLOYEE BENEFIT PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE OR LOCAL LAW, OR NON-U.S. LAW, THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW"); OR (II) ITS PURCHASE AND HOLDING OF THE NOTES REPRESENTED HEREBY WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF ANOTHER EMPLOYEE BENEFIT PLAN SUBJECT TO SIMILAR LAW, IS NOT IN VIOLATION OF ANY SIMILAR LAW).

THE ISSUER MAY COMPEL THE HOLDER OF THE NOTES REPRESENTED HEREBY TO CERTIFY PERIODICALLY THAT SUCH HOLDER IS A QIB (DURING SUCH TIME THAT THE NOTES REPRESENTED HEREBY ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT) AND A QP.

11. 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 any of its agents.

12. It is not purchasing the notes with the intent or purpose of evading, either alone or in conjunction with any other person, the provisions of the Securities Act.

13. If it is a pension fund or an investment company, it represents that its purchase of the notes is in full compliance with all applicable laws and regulations.

14. It understands that the foregoing restrictions apply to offers, sales, pledges and transfers made at any time, whether or not the notes have previously been offered, sold or transferred outside of the United States.

Prospective purchasers are hereby notified that sellers of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

In connection with its purchase of the Regulation S Notes, the Investor and each subsequent purchaser of Regulation S Notes in resales prior to the expiration of the distribution compliance period, by virtue of its acceptance of this prospectus hereof, will be deemed to represent, acknowledge and agree as follows:

1. It has not distributed any part of the prospectus to any other person and has not disclosed any of the contents of the prospectus to any other person.

2. It (a) has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of an investment in the notes, (b) has received and reviewed the prospectus and understands and accepts the substantial risks associated with an investment in the notes, (c) is able to bear a complete loss of its investment in the notes, (d) has the financial ability to bear the economic risk of an investment in the notes for an indefinite period of time and adequate means for providing for its current needs and possible contingencies and (e) has no need for liquidity with respect to its investment in the notes.

3. It is not relying on any investigation that the Managers, any of their affiliates or persons acting on their behalf may have conducted with respect to the notes, Russia, the Issuer or LUKOIL and none of such persons has made any representations to it, express or implied, with respect thereto and that the Managers are not making any representation as to the truth, accuracy or completeness of the information in the prospectus.

4. It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) is located outside of the United States or purchasing in an offshore transaction (within the meaning of Regulation S); (b) is not a U.S. person (as defined in Regulation S); and (c) is not an affiliate of the Issuer or LUKOIL or a person acting on behalf of such an affiliate.

5. The notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP which can make the representations set forth in paragraphs 4 and 5 of ''*Transfer Restrictions —Rule 144A Notes*'' purchasing for its own account or for the account of one or more QIBs each of which is also a QP which can make the representations set forth in paragraphs 4 and 5 of ''*Transfer Restrictions —Rule 144A Notes*'' above or (b) to non-U.S. persons (as defined in Regulation S) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States.

6. The 2018 Regulation S Notes will be represented by a 2018 Regulation S Global Note and the 2023 Regulation S Notes will be represented by a 2023 Regulation S Global Note. Before any beneficial interests in the notes represented by the 2018 Regulation S Global Note or the 2023 Regulation S Global Note may be transferred to a person who takes delivery in the form of a beneficial interest in the 2018 Rule 144A Global Note or the 2023 Rule 144A Global Note, and *vice versa*, certain certifications will be required pursuant to the relevant agency agreement.

7. 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 any of their respective agents.

8. It is not purchasing the notes with the intent or purpose of evading, either alone or in conjunction with any other person, the provisions of the Securities Act.

9. If it is a pension fund or an investment company, it represents that its purchase of the notes is in full compliance with all applicable laws and regulations.

10. It understands that the foregoing restrictions apply to offers, sales, pledges and transfers made at any time, whether or not the notes have previously been offered, sold or transferred outside of the United States.

ERISA

Each purchaser of notes, and each subsequent transferee of any notes by virtue of the transfer of such notes to such transferee, by accepting delivery of this prospectus and the notes, will be deemed to have represented, agreed and acknowledged that either:

1. It is not and for so long as it holds the notes represented thereby (or any interest therein) will not be (and is not acquiring any note represented thereby directly or indirectly with the assets of a person who is or while the notes are held will be) (a) an ''employee benefit plan'', as defined in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended (ERISA), that is subject to Title I of ERISA, (b) a ''plan'' described in and subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the Code), (c) any entity whose underlying assets include, or are deemed to include, ''plan assets'' by reason of such employee benefit plan's or plan's investment in the entity or (d) any employee benefit plan which is subject to any federal, state or local law, or foreign law, that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code (Similar Law); or
2. Its purchase and holding of the notes represented hereby will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of another employee benefit plan subject to similar law, is not in violation of any Similar Law).

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Global Notes

Each series of notes will be evidenced on issue by (i) in the case of Regulation S Notes, Regulation S Global Notes deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg and (ii) in the case of Rule 144A Notes, Rule 144A Global Notes deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC.

Beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See ''*—Book-Entry Procedures for the Global Notes*''. By acquisition of a beneficial interest in a Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. Person, and that, if it determines to transfer such beneficial interest prior to the expiration of the 40-day distribution compliance period, it will transfer such interest only to a person whom the seller reasonably believes (a) to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (b) to be a person who takes delivery in the form of an interest in a Rule 144A Global Note (if applicable). See ''*Transfer Restrictions*''. Beneficial interests in a Rule 144A Global Note may only be held through DTC at any time. See ''*—Book-Entry Procedures for the Global Notes*''. By acquisition of a beneficial interest in a Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that it is a QIB that is also a QP which can make the representations set forth in paragraphs 4 and 5 of ''*Transfer Restrictions —Rule 144A Notes*'' and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the relevant agency agreement. See ''*Transfer Restrictions*''.

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the relevant agency agreement, and with respect to Rule 144A Global Notes, as set forth in Rule 144A, and the notes will bear the legends set forth thereon regarding such restrictions set forth under ''*Transfer Restrictions*''. A beneficial interest in the 2018 Regulation S Global Note or the 2023 Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the 2018 Rule 144A Global Note or the 2023 Rule 144A Global Note, as the case may be, only upon receipt by the Registrar of a written certification (in the form provided in the relevant agency agreement) to the effect that the transferor reasonably believes that the transferee is a QIB that is also a QP which can make the representations set forth in paragraphs 4 and 5 of ''*Transfer Restrictions—Rule 144A Notes*'' and that such transaction is in accordance with any applicable securities laws of any state or other jurisdiction of the United States. Beneficial interests in the 2018 Rule 144A Global Note or the 2023 Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in the 2018 Regulation S Global Note or the 2023 Regulation S Global Note, as the case may be, only upon receipt by the Registrar of a written certification (in the form provided in the relevant agency agreement) from the transferor to the effect that the transfer is being made in accordance with Regulation S.

Any beneficial interest in the 2018 Regulation S Global Note or the 2023 Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in the 2018 Rule 144A Global Note or the 2023 Rule 144A Global Note, as the case may be, will, upon transfer, cease to be an interest in the 2018 Regulation S Global Note or the 2023 Regulation S Global Note, as the case may be, and become an interest in the 2018 Rule 144A Global Note or the 2023 Rule 144A Global Note, as the case may be, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the 2018 Rule 144A Global Note or the 2023 Rule 144A Global Note, as the case may be, and become an interest in the 2018 Regulation S Global Note or the 2023 Regulation S Global Note, as the case may be, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the 2018 Regulation S Global Note or the 2023 Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated notes in definitive form (the Definitive Notes). The notes are not issuable in bearer form.

Amendments to Conditions

Each Global Note contains provisions that apply to the notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions:

Payments

Payments of principal and interest in respect of notes evidenced by a Global Note will be made to the person who appears at the relevant time on the register of Noteholders against presentation for endorsement by the Principal Paying Agent and, if no further payment falls to be made in respect of the relevant notes, surrender of such Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant notes.

Payment Business Days

So long as any notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, the definition of ''business day'' in Condition 8(d) (*Payments on business days*) will be modified by the terms of such Global Note to mean any day which is a day on which dealings in foreign currencies may be carried on in New York City.

Record Date

Notwithstanding the provisions of Condition 8(e) (*Record Date*), for so long as any notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, payments in respect of the notes will be made to each accountholder in whose account with a clearing system the notes are held at the opening of business 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 such Global Note is being held is open for business.

Notices

So long as any notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of such notes.

Meetings

The holder of each Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of each of the notes for which the relevant Global Note may be exchangeable.

Trustee's Powers

In considering the interests of Noteholders while the relevant Global Note is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note and may consider such interests as if such accountholders were the holders of such Global Note.

Exchange for Definitive Notes

Exchange

Each Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for notes in definitive, registered form if: (i) a Global Note is held by or on behalf of (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to such Global Note or ceases to be a ''clearing agency'' registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (B) Euroclear or Clearstream, Luxembourg, and Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent or (ii) principal in respect of any notes is not paid when due and payable.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for definitive notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the notes.

"**Exchange Date**" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note shall be exchanged in full for definitive notes and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such notes and (b) in the case of a Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule l44A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB that is also a QP which can make the representations set forth in paragraphs 4 and 5 of "*Transfer Restrictions —Rule 144A Notes*". Definitive Notes issued in exchange for a beneficial interest in a Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions*".

Legends

The holder of a Definitive Note may transfer the notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Note bearing the legend referred to under "*Transfer Restrictions*", or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Issuer will deliver only Rule 144A Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

Book-Entry Procedures for the Global Notes

For each series of notes evidenced by both a Regulation S Global Note and a Rule 144A Global Note, custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the notes and cross-market transfers of the notes associated with secondary market trading. See "*—Book-Entry Ownership—Settlement and Transfer of Notes*".

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders (Direct Participants) or indirectly (Indirect Participants and together with Direct Participants, Participants) through organisations which are accountholders therein.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a ''banking organization'' under the laws of the State of New York, a member of the U.S. Federal Reserve System, a ''clearing corporation'' within the meaning of the New York Uniform Commercial code and a ''clearing agency'' registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, which clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly. More information about DTC may be found at www.dtcc.com.

Investors may hold their interests in the Rule 144A Global Notes directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Global Note as to which such Participant or Participants has or have given such direction. However, in the circumstances described under ''*Exchange for Definitive Notes*'', DTC will surrender the relevant Rule 144A Global Note for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Notes representing the 2018 Regulation S Notes and the 2023 Regulation S Notes will each have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

DTC

The Rule 144A Global Notes representing the 2018 Rule 144A Notes and the 2023 Rule 144A Notes will each have a CUSIP number and will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the notes held within the DTC System.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under such Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of notes evidenced by a Global Note, the common depositary by whom such note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the notes for so long as the notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such notes on the clearing system's records. The ownership interest of each actual purchaser of each such note (the Beneficial Owner) will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual Beneficial Owners of the notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement (SDFS) system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in notes are to be transferred from the account of a DTC participant holding a beneficial interest in the 2018 Rule 144A Global Note or the 2023 Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the 2018 Regulation S Global Note or the 2023 Regulation S Global Note (subject to the certification procedures provided in the relevant agency agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the relevant Rule 144A Global Note will instruct the Registrar to (i) decrease the amount of notes registered in the name of Cede & Co. and evidenced by such Rule 144A Global Note of the relevant class and (ii) increase the amount of notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the relevant Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or

Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser

When book-entry interests in the notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Rule 144A Global Note (subject to the certification procedures provided in the relevant agency agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the relevant Rule 144A Global Note who will in turn deliver such book-entry interests in the notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the relevant Regulation S Global Note; and (ii) increase the amount of notes registered in the name of Cede & Co. and evidenced by the relevant Rule 144A Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of notes will be made against payment therefor on the Closing Date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant Closing Date will be required, by virtue of the fact the notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of notes may be affected by such local settlement practices, and purchasers of notes between the relevant date of pricing and the relevant Closing Date should consult their own advisors.

SUBSCRIPTION AND SALE

BNP Paribas and Citigroup Global Markets Limited (together, the Managers) have, pursuant to a Subscription Agreement dated 22 April 2013, jointly and severally agreed with the Issuer and LUKOIL, subject to the satisfaction of certain conditions, to subscribe for the notes at 100% of the principal amount of the 2018 notes and 100% of the principal amount of the 2023 notes, less concessions and commissions plus accrued interest, if any. In addition, the Issuer has agreed, under certain circumstances, to reimburse the Managers for certain of their expenses in connection with the issue of the notes. The Subscription Agreement entitles the Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

Selling Restrictions

General

Neither the Issuer nor LUKOIL nor any Manager has made any representation that any action will be taken in any jurisdiction by the Managers or the Issuer or LUKOIL that would permit a public offering of the notes, or possession or distribution of any offering material (in preliminary, proof or final form) in relation thereto in any country or jurisdiction where action for that purpose is required. Each 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 notes or has in its possession or distributes this prospectus, in all cases at its own expense.

United States

The notes have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act. Each Manager has represented, warranted and agreed that it will not offer or sell the notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of U.S. persons, and it will have sent to each dealer to which it sells notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the notes within the United State or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after commencement of the offer, an offering or sale of notes within the United States by a dealer which is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act.

Notes offered and sold outside the United States may be sold in reliance on Regulation S. The Subscription Agreement provides that the Managers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of notes within the United States only to persons whom they reasonably believe are QIBs and QPs who can represent that (a) they are QPs who are QIBs within the meaning of Rule 144A; (b) they are not broker-dealers who own and invest on a discretionary basis less than US$25 million in securities of unaffiliated issuers; (c) they are not a participant-directed employee plan, such as 401(k) plan; (d) they are acting for their own account, or the account of one or more QIBs each of which is a QP; (e) they are not formed for the purpose of investing in the Issuer or the notes; (f) each account for which they are purchasing will hold and transfer at least US$200,000 in principal amount of notes at any time; (g) they understand that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositaries; and (h) they will provide notice of the transfer restrictions set forth in this prospectus to any subsequent transferees.

The Issuer and the Managers reserve the right to reject any offer to purchase the notes, in whole or in part, for any reason. This prospectus does not constitute an offer to any person in the United States or to any U.S. person other than any QIB that is also a QP which can make the representations set out in the previous paragraph and to whom an offer has been made directly by one of the Managers or its U.S. broker-dealer affiliate. Distribution of this prospectus by any non-U.S. person outside the United States or by any QIB that is also a QP within the United States to any U.S. person or to any other person within the United States, other than any QIB that is also a QP which can make the representations set out in the previous paragraph and those persons, if any, retained to advise such non-U.S. person or QIB that is also a QP which can make the representations set out in the previous paragraph with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to

any such U.S. person or person within the United States, other than any QIB that is also a QP which can make the representations set out in the previous paragraph and those persons, if any, retained to advise such non-U.S. person or QIB that is also a QP which can make the representations set out in the previous paragraph, is prohibited.

United Kingdom

Each Manager has represented, warranted and undertaken that:

(i) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the FSMA) and the regulations adopted thereunder with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom; and

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any 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 any notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor.

The Netherlands

The notes may not be offered to the public in The Netherlands unless in reliance on Article 3(2) of the Prospectus Directive and provided (i) such offer is made exclusively to persons or entities which are qualified investors (as defined in the Prospectus Directive) in The Netherlands or (ii) standard logo and exemption wording is disclosed as required by Article 5:20(5) of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*).

The Russian Federation

Each Manager represents, warrants and agrees that the notes 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

Each Manager acknowledges that the prospectus has 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 Manager represents, warrants and agrees that it has not offered or sold any notes, it has not made such notes the subject of an invitation for subscription or purchase, and it has not circulated or distributed, nor will it circulate or distribute, the prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such notes, whether directly or indirectly, to persons 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) of the SFA, or any person pursuant to an offer referred to in Section 275(1A) of the SFA, 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.

Hong Kong

Each Manager has represented, warranted and agreed that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any notes 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

(ii) 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 notes, 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 notes 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 notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* (CONSOB) pursuant to Italian securities legislation. Each Manager represents and agrees that any offer, sale or delivery of the notes or distribution of copies of the prospectus or any other document relating to the notes 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 notes or distribution of copies of the prospectus or any other document relating to the notes 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.

TAXATION

The following is a general description of certain tax laws relating to the notes. It does not purport to be a complete analysis of all tax considerations relating to the notes, whether in those countries referred to or elsewhere. However, prospective investors should consult their own advisers regarding the tax consequences of an investment in the notes.

The Netherlands

The following is a summary of certain material Dutch tax consequences of purchasing, owning and disposing of the notes. 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 notes. In particular, this discussion does not consider any specific facts or circumstances that may apply to a particular purchaser. 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 this prospectus, which are subject to change, possibly with retroactive or retrospective effect. Where in this summary the terms "The Netherlands" and "Dutch" are used, these refer solely to the European part of the Kingdom of the Netherlands.

It is assumed that the notes and income received or capital gains derived therefrom, are not attributable to employment activities of the holder of the notes and that a holder of notes will not directly or indirectly hold a substantial interest (*aanmerkelijk belang*) in the Issuer.

It is further noted that under Dutch tax law an individual may be considered as a holder of notes if he/she is deemed to hold an interest in the notes pursuant to the attribution rules of article 2.14a of The Netherlands Income Tax Act 2001, with respect to property that has been segregated, for instance in a trust or foundation.

Withholding tax

All payments made by the Issuer under the notes 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 notes 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 notes, including any payment under notes and any gain realised on the disposal of notes, 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 notes are attributable to such enterprise.

Furthermore, a holder of notes 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 notes or any gain realised on the disposal or deemed disposal of the notes, provided that such holder does not carry out any activities in The Netherlands with respect to the notes that exceed ordinary active asset management (*normaal vermogensbeheer*) and such holder of notes does not derive, or is deemed to derive, benefits from the notes that are (otherwise) taxable as benefits from other activities in The Netherlands (*resultaat uit overige werkzaamheden*).

Entities

A holder of notes 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 notes, including any payment under notes and any gain realised on the disposal of notes, 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 notes are attributable to such enterprise.

A holder of notes will not become subject to Dutch taxation on income or capital gains by reason only of the issue of the notes 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 notes by way of a gift by, or on the death of, a holder of notes 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 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 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 notes by way of a gift by, or on the death of, a holder of notes who is neither resident nor deemed to be resident in The Netherlands, unless in the case of a gift of the notes 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 documentary tax or duty, other than court fees 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 notes or the performance of the Issuer's obligations under the notes.

Value Added Tax

There is no Dutch value added tax payable in respect of payments in consideration for the issue of the notes or in respect of the payment of interest or principal under the notes or the transfer of the notes, 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 notes, as well as taxation of payments under the guarantees. The summary is based on the laws of Russia in effect as of the date of this prospectus (whereas they are subject to any changes in law which could occur frequently, at short notice and could apply retrospectively). The information and analysis contained in this section are limited to taxation issues and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the notes. This summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal authorities of the Russian Federation. Nor does this summary seek to address the availability of double tax treaty relief to, and the eligibility for, double tax relief of any noteholder in respect of income payable to that noteholder on the notes, or practical difficulties involved in claiming and obtaining such double tax treaty relief. The analysis set out herein does not include any comments on tax implications which could arise for the noteholders in connection with entering into REPO or stock lending transactions with the notes or into term deals, derivatives and/or any similar types of transactions with the notes.

Many aspects of the Russian Tax Code are uncertain and lack interpretive guidance resulting in inconsistent interpretations and application thereof by the various authorities in practice. Both the substantive provisions of the Russian Tax Code applicable to securities and financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be subject to more

rapid and unpredictable change and inconsistency as compared to jurisdictions with more developed capital markets and tax systems.

In practice, interpretation of tax laws and regulations by different tax inspectorates in Russia may be inconsistent and/or contradictory, and may result in the imposition of conditions, requirements or restrictions, that are not explicitly provided for by law. Similarly, in the absence of binding precedent, court rulings on tax or other related matters taken by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

Prospective investors should consult their own advisers in relation to the tax consequences of investing in the notes that may arise in their particular circumstances. No representations with respect to the Russian tax consequences pertinent to any particular noteholder are made herein.

Taxation of the Notes

For the purposes of this summary, the term ''**Resident Noteholder**'' means:

- a Noteholder who is an individual and satisfies the criteria of being a Russian tax resident. A ''Russian tax resident'' is an individual who is actually present in Russia for an aggregate period of 183 calendar days or more in any period comprised of 12 consecutive months, who acquires, holds and disposes on the notes (the Resident Noteholder – Individual); or
- a Russian legal entity or organisation, which acquires, holds and disposes of the notes, and a legal entity or an organization, in each case organized under a non-Russian law, which acquires, holds and disposes the notes through its permanent establishment in Russia (as defined by Russian tax law) (the Resident Noteholder – Legal Entity).

For the purposes of this summary, the term ''**Non-resident Noteholder**'' means:

- a legal entity or an organisation, in each case not organised under Russian law which acquires, holds and disposes of the Notes otherwise than through its permanent establishment in Russia (the Non-resident Noteholder–Legal Entity), and
- a Noteholder who is an individual and does not satisfy the criteria for being a Russian tax resident as defined above (the Non-resident Noteholder–Individual).

For the purposes of this summary, the definitions of ''Resident Noteholder'' and ''Non-resident Noteholder'' 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 by the Russian tax authorities may differ based on their position in each case. The law is currently worded in a way that implies the potential for a split year residency for individuals. However, both the Ministry of Finance of the Russian Federation and the Russian 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 tax 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, a change in the position of the authorities or by outcomes of tax controversy through the courts.

Resident Noteholders

Resident Noteholders will be subject to all applicable Russian taxes in respect of income derived by them in connection with the acquisition, ownership and/or disposal of the notes (including interest received on the notes).

Resident Noteholders should consult their own tax advisers with respect to the effect that acquisition, holding and/or disposal of the notes may have on their tax position.

Non-resident Noteholders

Taxation of Non-resident Noteholders–Legal Entities

Acquisition of the Notes

Acquisition of the notes by the Non-resident Noteholders–Legal Entities (whether upon their issue or in the secondary market) should not constitute a taxable event under Russian tax law. Consequently, acquisition of the notes should not trigger any Russian tax implications for the Non-resident Noteholders–Legal Entities.

Interest on the Notes

The Non-resident Noteholders–Legal Entities generally should not be subject to any Russian taxes in respect of payment of interest on the notes received from the Issuer.

Sale or other Disposal of the Notes

A Non-resident Noteholder–Legal Entity generally should not be subject to any Russian taxes in respect of gains or other income realised on redemption, sale or other disposal of the notes outside of Russia, provided that the proceeds of such sale, redemption, or disposal are not received from a source within Russia.

In the event that proceeds from sale, redemption or other disposal of the notes are received from Russian sources, a Non-resident Noteholder–Legal Entity should not be subject to Russian withholding tax in respect of such proceeds, although there was some residual uncertainty regarding the treatment of the portion of proceeds, if any, that is attributable to accrued interest on the notes. The risk of withholding tax was substantially mitigated by the changes to the Russian Tax Code (i.e. Law No. 97-FZ, which applies retrospectively starting from 1 January 2007).

Non-resident Noteholders–Legal Entities should consult their own tax advisors with respect to taxation of the notes in Russia or elsewhere.

Taxation of Non-resident Noteholders–Individuals

Acquisition of the Notes

Acquisition of the notes by Non-resident Noteholders–Individuals may constitute a taxable event for Russian personal income tax purposes pursuant to the provisions of the Russian Tax Code concerning material benefit (deemed income) received by individuals as a result of the acquisition of securities (in case the notes are initially issued at par, these provisions are likely to be relevant for the acquisition of the notes in the secondary market only). In particular, if the acquisition price of the notes is below the lower margin of the fair market value of the notes calculated based on specific procedure for the determination of market prices of securities for Russian personal income tax purposes, the difference may be subject to Russian personal income tax at the rate of 30% (or such other tax rate as may be effective at the time of acquisition), which is, arguably, subject to reduction or elimination under the applicable double tax treaty.

Under the Russian tax legislation, taxation of income of the Non-resident Noteholders–Individuals will depend on whether this income is qualified as received from Russian or non-Russian sources. Since the Russian Tax Code does not contain any provisions in relation to how the related material benefit should be sourced, in practice the Russian tax authorities may infer that such income should be considered as Russian source income if the notes are purchased "in Russia". In the absence of any additional guidance as to what should be considered as a purchase "in Russia", the Russian tax authorities may apply various criteria to determine the source of any such material benefit, including looking at the place of conclusion of the acquisition transaction, the location of the Issuer, or other similar criteria. There is therefore no assurance that as a result of the acquisition of the notes any material benefit received by the Non-resident Noteholders–Individuals will not become taxed in Russia.

Interest on the Notes

A Non-resident Noteholder–Individual should not be subject to any Russian taxes in respect of payments of interest on the notes received from the Issuer.

Sale or other Disposal of the Notes

A Non-resident Noteholder–Individual should not be subject to any Russian taxes in respect of gains or other income realised on a redemption, sale or other disposal of the notes outside of Russia, provided that the proceeds of such sale, redemption, or disposal are not received from a source within Russia.

Russian tax law gives no clear indication as to how the income from operations with securities conducted by individuals should be sourced, other than that income from the sale of securities "in Russia" should be considered as Russian-source income. As there is no further definition of what should be considered as a sale "in Russia", the Russian tax authorities have a certain amount of freedom to conclude what transactions take place in or outside Russia, including looking at the place of the transaction, the place of the issuer of the notes, or other similar criteria.

If the proceeds from a disposal of the notes by a Non-resident Noteholder–Individual are classified as income from a source within Russia for Russian personal income tax purposes the corresponding income

will be subject to Russian personal income tax at a rate of 30 per cent (or such other tax rate as may be effective at the time of payment), unless such tax is reduced or eliminated under an applicable double tax treaty. The tax will apply to the gross proceeds received upon the disposal of the notes (including accrued and paid interest on the notes) less any available duly documented cost deductions (including the original acquisition costs and other documented expenses related to the acquisition, holding and sale or other disposal of the notes), provided that such documentation is duly executed and is available to the person obliging to calculate and withhold the tax in a timely manner. There is a risk that, if the documentation supporting the cost deductions is deemed insufficient by the Russian tax authorities or the person remitting the respective income to the Non-resident Noteholders–Individuals (where such person is considered as the tax agent obliging to calculate and withhold Russian personal income tax and remit it to the Russian budget), the deduction will be disallowed and the tax will apply to the gross amount of the sales or disposal proceeds.

Under certain circumstances, if the sale and other disposal proceeds (including accrued and paid interest on the Notes) are paid to a Non-resident Noteholder–Individual by a licensed Russian broker or an asset manager, carrying out operations for the benefit of the Non-resident Noteholder–Individual under an asset management agreement, a brokerage agreement, an agency agreement, a commission agreement or a commercial mandate agreement, the applicable Russian personal income tax at the rate of 30% (or such other tax rate as may be effective at the time of payment) will be withheld at source by that person considered as the tax agent. The amount of tax withheld will be calculated after taking into account available documented deductions for the original acquisition cost and related expenses on the acquisition, holding and sale or other disposal of the Notes to the extent such deductions and expenses can be determined by the entity making the payment of income to the Non-resident Noteholder-Individual.

If the costs were born in connection with the acquisition of the Notes within the relationship with the party other than tax agent who is obliged to calculate and withhold Russian personal income tax under this agreement, original duly documented acquisition costs may be taken into account by the tax agent upon written application of the Noteholder and presentation of the documents confirming the costs.

When the notes are sold to other companies (other than licensed brokers and asset managers mentioned in the preceding paragraph) or individuals, generally no Russian personal income tax should be withheld at source by these persons. The Non-resident Noteholder–Individual would be liable to file a tax return individually, report on the amount of income realised to the Russian tax authorities and apply for a deduction of acquisition cost and other expenses related to the acquisition, holding and sale or other disposal of the notes confirmed by the supporting documentation. The applicable personal income tax would then have to be paid by the individual on the basis of the tax return.

Under certain circumstances gains received and losses incurred by a Non-resident Noteholder–Individual as a result of sale or other disposal of the notes and other securities of the same category (i.e., securities qualified as traded or non-traded for Russian personal income tax purposes) within the same tax year may be aggregated for the Russian personal income tax purposes, which would affect the total amount of Russian personal income tax on income realised from the disposal of the notes.

There is also a risk that any gain derived from sale or other disposal of the notes may be affected by changes in the exchange rate between the currency of acquisition of the notes, the currency of disposal of the notes and rubles.

Non-resident Noteholders–Individuals should consult their own tax advisors with respect to tax consequences of the acquisition of the notes, sale or other disposition of the notes, including the receipt of sales proceeds from a source within Russia.

Tax Treaty Relief

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 Socialistic Republics. These double tax treaties may contain provisions that reduce or eliminate Russian taxes applicable to income received by a Non-resident Noteholder from Russian sources in connection with the acquisition, holding, sale or other disposal of the notes.

Advance treaty relief should be available for the eligible Non-resident Noteholders, subject to the requirements of the laws of the Russian Federation. In order for the Non-resident Noteholder–Individual to enjoy the benefits of an applicable double tax treaty, the noteholder must comply with the certification, information, and reporting requirements in force in Russia (relating, in particular, to the confirmation of the entitlement and eligibility to treaty benefits).

Under Russian domestic law, a Non-resident Noteholder–Individual should provide the Russian tax authorities with a tax residency certificate issued by the competent authority of his or her country of residence for tax purposes and a confirmation from the relevant foreign tax authorities on income received and the tax paid outside Russia by that Non-resident Noteholder–Individual in relation to income with respect to which the respective double tax treaty benefits are claimed. Such requirements may be imposed even if they directly contradict provisions of the respective double tax treaty.

Technically, these requirements mean that a Non-resident Noteholder–Individual would not be able to rely on any double tax treaty until such individual pays the tax in the jurisdiction of his or her tax residency. Individuals in practice would not be able to obtain the advance treaty relief in relation to income derived by them from Russian sources, as it is very unlikely that the supporting documentation required for the treaty relief purposes would be provided to the Russian tax authorities and, consequently, approval from the latter would be obtained, before the receipt of income by a Non-resident Noteholder–Individual occurs. In addition, the fact that the noteholders would not be the immediate recipients of payments under the guarantees would further complicate the application of tax treaty benefits/refund in practice.

Non-resident Noteholders 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 on a disposal of the notes.

Refund of Tax Withheld

If Russian withholding tax on income derived from Russian sources by a Non-resident Noteholder–Legal Entity was withheld at source, despite the domestic release of such income from Russian withholding tax envisaged by the Russian law, a claim for a refund of the tax that was excessively withheld at source can be filed by that Non-resident Noteholder–Legal Entity with the Russian tax authorities within three years following the year in which the tax was withheld, provided such Non-resident Noteholder–Legal Entity is entitled to the benefits of the applicable double tax treaty allowing it not to pay the tax or allowing it to pay the tax at a reduced tax rate in relation to such income. There is no assurance that such refund will be possible in practice.

If Russian personal income tax on income derived from Russian sources by a Non-resident Noteholder–Individual was withheld at source despite the right of this Non- resident Noteholder - Individual to rely on benefits of the applicable double tax treaty allowing not to pay the tax in Russia or allowing to pay the tax at a reduced tax rate in relation to such income, a claim for application of the benefits of the applicable double tax treaty may be filed with the Russian tax authorities, together with the supporting documents envisaged by this double tax treaty confirming the right of the Non-resident Noteholder to such benefits, within one year following the tax year in which the tax was withheld. Provided that such claim has been made in a timely manner, an application for a refund of Russian personal tax which was excessively withheld at source may be filed with the tax agent within three years from the date the tax was withheld. In the absence of the tax agent who withheld the Russian personal income tax under consideration (e.g. when the tax has been paid on the basis of the tax return), such an application for a refund may be filed with the Russian tax authorities within the same period (three years) accompanied by the Russian tax return from the date when the tax was paid provided a claim for application of the benefits of the applicable double tax treaty has been made in a timely manner. There can be no assurance that the tax agent and/or the Russian tax authorities will refund this tax in practice.

Although the Russian Tax Code arguably contains exhaustive list of documents and information which have to be provided by the foreign person to the Russian tax authorities for the tax refund purposes, the Russian tax authorities may, in practice, require a wide range of documentation confirming a Non-resident Noteholder's right to obtain relief under the applicable double taxation treaty. Such documentation may not be explicitly required by the Russian Tax Code and may to a large extent depend on the position of the local representatives of the tax inspectorates.

Obtaining a refund of the Russian tax withheld at source may be a time-consuming process, and no assurance can be given that such a refund will be granted to Non-resident Noteholders in practice.

The Non-resident Noteholders should consult their own tax advisors regarding procedures required to be fulfilled in order to obtain refund of Russian income taxes, which were excessively withheld at source.

Taxation of Payments under the Guarantees

Russian tax legislation in respect of withholding tax on guarantee payments to non-residents is unclear. Non-resident Noteholders should consult their own tax advisors with respect to the tax consequences of the receipt of any payments under the guarantees, including applicability of any available double tax treaty relief.

In general, no withholding tax obligations should arise upon making payments under the guarantees by the Guarantor to Non-resident Noteholders–Legal Entities by virtue of the exemption envisaged by Law 97-FZ.

Law 97-FZ provides that Russian companies which make payments in favour of foreign legal entities upon the execution of the guarantee or suretyship should be fully released from the obligation to withhold tax from such payments provided that the following conditions are all met:

(1) Payments under a guarantee or suretyship relate to the ''issued bonds'' placed by a foreign entity in order to fund a debt to a Russian entity, where ''issued bonds'' are defined as bonds or other debt obligations (a) listed and/or admitted to trading on one of the specified foreign exchanges and/or (b) that have been registered in foreign depository/clearing organizations;

    The lists of qualifying foreign stock exchanges and foreign depository/clearing organizations were approved by the Order 12-91/pz-n dated 25 October 2012 of the Federal Financial Markets Service of the Russian Federation, which came into force on 30 December 2012. Before the lists are approved, any foreign stock exchange or depository/clearing organization could have qualified for the purposes of the test mentioned above. The London Stock Exchange and the clearing systems Euroclear, Luxembourg and Clearstream were included in the above-mentioned lists. DTC is not expressly mentioned in the lists as opposed to its holding company, the Depository Trust & Clearing Corporation. We believe that the aforementioned conditions provided by Law No. 97-FZ are satisfied because, among other things, the notes will be admitted to the Official List of the London Stock Exchange.

    The connection between the payments and the issued bonds should be evident and supported with documents, which are set forth in Law 97-FZ.

(2) There is a double tax treaty between Russia and the jurisdiction of tax residence of income recipient (i.e. the respective noteholder) which can be confirmed by a tax residency certificate.

    The release from the obligation to withhold tax from interest and other payments described herein will apply to income paid on issued bonds (such as the notes) that are placed before 1 January 2014.

It should be noted that there can be no assurance that the Russian withholding tax would not be imposed on the payments made under the guarantees to the Non-resident Noteholders–Legal Entities not residing for tax purposes in countries which have concluded a double tax treaty with Russia. In such case there is a risk that Russian withholding tax would be imposed on the full amount of the payment under the relevant guarantee, including the principal amount of the notes. Since the above could only be relevant in case of payments made in favour of the Non-resident Noteholders–Legal Entities residing for tax purposes in countries which do not have a double tax treaty with Russia, reduction or elimination of 20 %. Russian withholding tax on the basis of the double tax treaties under such circumstances should not be possible.

Importantly, Law 97-FZ does not provide an exemption to the foreign interest income recipients from Russian withholding tax, although currently there is no requirement in the Russian tax legislation for foreign income recipients which are the legal entities to self-assess and pay the tax to the Russian tax authorities. The Russian Ministry of Finance has acknowledged in an information letter published on its website that the release from the obligation to act as a tax agent means, in effect, that tax at source within Russia should not arise in connection with Eurobonds, since there is neither a mechanism nor obligation for a non-resident to independently calculate and pay such tax. There can be no assurance that such rules will not be introduced in the future or that the Russian tax authorities would not make attempts to collect the tax from the foreign income recipients including the Non-resident Noteholders–Legal Entities and/or the Trustee.

Payments under the relevant guarantee, as the case may be, to a Non-resident Noteholder–Individual, may be subject to Russian tax as such income may be treated as a Russian source income. In this case, depending on how these payments would be effected, either the full amount of payments, or a part of such payments covering the interest on the notes, could be subject to personal income tax at the rate

of 30%, which may be withheld at source or payable on a self-assessed basis. The tax may be reduced or eliminated pursuant to the provisions of any applicable double tax treaty.

The treaty relief and refund procedures should generally be similar to the tax relief and refund procedures described above with respect to proceeds from the disposal of the notes.

Pursuant to the Trust Deeds payments under the guarantees that relate to interest and principal on the notes will be paid to or to the order of the Trustee in accordance with the relevant Trust Deed.

If payments under the guarantees become subject to the Russian withholding tax (as a result of which the Guarantor would have to reduce payments made under the notes by the amount of tax withheld), LUKOIL will be obliged (subject to certain conditions) to increase payments under the guarantees as may be necessary so that the net payments received by the Trustee acting on behalf of the noteholders 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 payments under the guarantees will be enforceable under the Russian laws. There is a risk that gross up for withholding tax will not take place and that the payments made by LUKOIL under the guarantees will be reduced by the amount of the Russian income tax withheld by LUKOIL at the rate of 20% (in the case of Non-resident Noteholders–Legal Entities) or at a rate of 30 % (in the case of Non-resident Noteholders–Individuals), or such other rate as may be in force at the time of payment.

Payments under the guarantees should not be subject to Russian VAT.

United States

Circular 230 Notice

The tax discussion contained in this document is not given in the form of a covered opinion within the meaning of Circular 230 issued by the U.S. Secretary of the Treasury. Thus, we are required to inform you that you cannot rely upon any advice contained in this document for the purpose of avoiding U.S. federal tax penalties. The tax discussion contained in this document was written to support the promotion or marketing of the transactions or matters described in this document. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

The following is a summary of the material U.S. federal income tax consequences of the acquisition, ownership and disposition of the notes by U.S. Holders (as defined below), but does not purport to be a complete analysis of all the potential tax considerations. This summary is based upon the Code, the Treasury Regulations promulgated or proposed thereunder (the Regulations) and administrative and judicial interpretations thereof, all as of the date hereof and all of which are subject to change at any time, possibly on a retroactive basis. No assurance can be given that the treatment of the notes described herein will be respected by the Internal Revenue Service (the IRS) or, if challenged, by a court. This summary is limited to the tax consequences to those persons who are initial purchasers of the notes and who hold the notes as capital assets within the meaning of Section 1221 of the Code. This summary does not purport to deal with all aspects of U.S. federal income taxation that might be relevant to particular U.S. Holders in light of their particular investment circumstances or status, nor does it address specific tax consequences that may be relevant to particular persons (including, for example, financial institutions, broker-dealers, insurance companies, partnerships or other pass-through entities, expatriates, banks, real estate investment trusts, regulated investment companies, tax-exempt organisations, U.S. Holders that have a functional currency other than the U.S. dollar or persons in special situations, such as those who have elected to mark securities to market or those who hold the notes as part of a straddle, hedge, conversion transaction or other integrated investment). In addition, this summary does not address tax considerations applicable to U.S. Holders that own (directly or by attribution) 10% or more of the voting stock of LUKOIL. This summary does not address U.S. federal alternative minimum, estate and gift tax consequences or consequences under the tax laws of any state, local or foreign jurisdiction. We have not sought any ruling from the IRS with respect to the statements made and the conclusions reached in this summary, and we cannot assure you that the IRS will agree with such statements and conclusions.

This summary is for general information only. U.S. Holders are urged to consult their tax advisors concerning the U.S. federal income taxation and other tax consequences to them of acquiring, owning and disposing of the notes, as well as the application of state, local and foreign income and other tax laws.

For purposes of this summary, a ''U.S. Holder'' means a beneficial owner of a note that is for U.S. federal income tax purposes: (1) an individual who is a citizen or resident of the United States, (2) a corporation created or organised under the laws of the United States, any state thereof, or the District of Columbia, (3) an estate the income of which is subject to U.S. federal income tax regardless of its source, or (4) a

trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust, and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) a valid election to be treated as a U.S. person is in effect with respect to such trust.

For purposes of this summary, an entity treated as a partnership for U.S. federal tax purposes will not be treated as a U.S. Holder. A partnership for U.S. federal income tax purposes is not subject to U.S. federal income tax on income derived from holding a note. The U.S. taxation of a partner in a partnership will depend on the nature of the partnership's activities. If you are a partner in a partnership which holds the notes, you should consult your tax advisor about the U.S. tax consequences of acquiring, owning and disposing of the notes.

Characterisation of the Notes

There are no regulations, published rulings or judicial decisions addressing the characterisation for U.S. federal income tax purposes of securities issued under the same circumstances and with substantially the same terms as the notes. The company believes and intends to take the position that the notes constitute debt for U.S. federal income tax purposes. However, no ruling will be obtained from the IRS with respect to the characterisation of the notes as debt, and there can be no assurance that the IRS or the courts would agree with this characterisation of the notes. If, due to the capital structure of the company or otherwise, the notes were treated as equity interests in the company, U.S. Holders likely would be treated as owning interests in a ''passive foreign investment company'' (a PFIC). Prospective investors should consult their tax advisers regarding the characterisation of the notes and the consequences of owning an equity interest in a PFIC. The discussion below assumes that the notes will be treated as debt for U.S. federal income tax purposes.

Payments of Interest

Payments of interest on a note will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued in accordance with such U.S. Holder's regular method of accounting for U.S. federal tax purposes. Payments of interest on the notes will constitute income from sources outside the United States and generally will be treated as ''passive income'' for foreign tax credit limitation purposes.

Effect of Russian Withholding Taxes

As discussed in ''*Taxation—The Russian Federation*'', under current law payments made by LUKOIL under the guarantees to holders of the notes who are not Russian residents may be subject to Russian withholding taxes. In this circumstance, LUKOIL may become liable for the payment of additional amounts to U.S. Holders (see ''*Terms and Conditions of the Notes—Taxation*'') so that U.S. Holders receive the same amounts they would have received had no Russian withholding taxes been imposed. For U.S. federal income tax purposes, U.S. Holders would be treated as having received the amount of Russian taxes withheld by the Issuer with respect to a note, and as then having paid over the withheld taxes to the Russian taxing authorities. As a result of this rule, the amount of interest income included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of interest may be greater than the amount of cash actually received (or receivable) by the U.S. Holder from the Issuer with respect to the payment.

Subject to certain limitations, a U.S. Holder generally will be entitled to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for Russian income taxes withheld and paid by the company. For purposes of the foreign tax credit limitation, foreign source income is classified in one of two ''baskets'', and the credit for foreign taxes on income in either basket is limited to U.S. federal income tax allocable to income in such basket. Interest on the notes generally will constitute foreign source income in the passive basket. A U.S. Holder will not be entitled to a credit against its U.S. federal income tax liability for Russian taxes withheld in excess of the applicable tax rate under the United States-Russia Tax Treaty if such amounts are treated as recoverable by the U.S. Holder for U.S. federal income tax purposes, regardless of whether the U.S. Holder successfully claims a refund for such taxes. In addition, in certain circumstances, a U.S. Holder may be unable to claim foreign tax credits (and may instead be allowed only deductions) for foreign taxes imposed on interest if the notes are held under arrangements in which the U.S. Holder's expected profit is insubstantial. Prospective purchasers should consult their tax advisers concerning the foreign tax credit implications of the payment of these Russian taxes.

Treatment of Premium

If a U.S. Holder purchases a note for an amount greater than its principal amount, the U.S. Holder generally may elect to amortise this premium over the term of the note. If a U.S. Holder makes this election, the amount of interest income in each payment period will be reduced by the amount of premium allocated to that period. The U.S. Holder's basis will also be reduced by the amortised amount. Generally, an election to amortise premium for one note requires a U.S. Holder to amortise premium for all debt instruments it acquired or acquires at a premium. U.S. Holders should consult their own advisors about whether the election would be advisable in their particular circumstances and about how to calculate the amount of premium allocated to each payment period.

Sale, Exchange and Retirement of the Notes

A U.S. Holder generally will recognise gain or loss on the sale, exchange or retirement of a note equal to the difference between the amount realised on the sale or retirement (excluding any amount attributable to accrued by unpaid interest, which will be treated as a payment of interest as described above) and the U.S. Holder's tax basis in the note, decreased (but not below zero) by any amortised premium (as described above). A U.S. Holder's tax basis in a note generally will be the cost of the note to such holder. Any gain or loss recognised by a U.S. Holder on the sale, exchange or retirement of a note will be capital gain or loss and will be long-term capital gain or loss if the note was held by the U.S. Holder for more than one year. Long-term capital gains recognised by non-corporate are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Gain or loss realised by a U.S. Holder on the sale, exchange or retirement of a note generally will be U.S. source gain or loss.

U.S. Holders that are individuals, estates and certain trusts are subject to an additional 3.8% Medicare tax on all or a portion of their ''net investment income'' for the relevant taxable year, which may include dividends on, and capital gains from the sale or other disposition of, the notes, to the extent of their net investment income that, when added to their other modified adjusted gross income, exceeds a certain threshold (which in the case of an individual will be between $125,000 and $250,000, depending on the individual's circumstances).

Backup Withholding and Information Reporting

Payments of principal and interest on, and the proceeds of the sale or other disposition of notes by, a U.S. paying agent or other U.S. connected intermediary will be reported to the IRS along with certain information, including the beneficial owner's name, address and taxpayer identification number, the aggregate amount of interest or other amounts paid to that beneficial owner during the calendar year and the amount of tax withheld, if any. This obligation, however, does not apply with respect to payments to certain U.S. Holders, including tax-exempt organisations, provided that they establish entitlement to an exemption.

In the event that a U.S. Holder subject to the reporting requirements described above fails to supply its correct taxpayer identification number in the manner required by applicable law, or underreports its tax liability, backup withholding may apply to each payment of interest and principal on the notes and on proceeds from a sale or other disposition of the notes. Backup withholding is not an additional tax and may be refunded or credited against the U.S. Holder's U.S. federal income tax liability, provided that the required information is furnished to the IRS.

U.S. Holders should consult their own tax advisors regarding their qualifications for an exemption from backup withholding and the procedure for obtaining such exemption, if applicable.

U.S. Holders should consult their own tax advisors regarding any filing or reporting obligations that may apply to the acquisition, ownership or disposition of the notes. Failure to comply with certain reporting obligations could result in the imposition of substantial penalties.

EU Directive on the Taxation of Savings Income

Under EC Council Directive 2003/48/EC on the taxation of savings income (the Directive), 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 also to Belgium, but on 1 January 2011 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.

The European Commission have proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

ERISA

Circular 230 Notice

The tax discussion contained in this document is not given in the form of a covered opinion within the meaning of Circular 230 issued by the U.S. Secretary of the Treasury. Thus, we are required to inform you that you cannot rely upon any advice contained in this document for the purpose of avoiding U.S. federal tax penalties. The tax discussion contained in this document was written to support the promotion or marketing of the transactions or matters described in this document. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

The following is a summary of certain considerations associated with the purchase and holding of any notes (or interest therein) by (i) an ''employee benefit plan'' (within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (ERISA)) that is subject to Part 4 of Subtitle B of Title I of ERISA, (ii) a plan, individual retirement account or other arrangement that is subject to Section 4975 of the Code and (iii) entities whose underlying assets include, or are deemed to include, ''plan assets'' by reason of any such plan's, account's or arrangement's investment in the entity (each of (i), (ii) and (iii), a Benefit Plan Investor). Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of a Covered Plan (as defined below) and certain persons (referred to as ''parties in interest'' or ''disqualified persons'') having certain relationships to such Covered Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and Section 4975 of the Code. Accordingly, each original or subsequent purchaser or transferee of a note that is or may become a Covered Plan is responsible for determining that its purchase and holding of such note will not constitute a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code.

Certain employee benefit plans, such as governmental plans, church plans and non-U.S. plans, while not subject to the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code, may nevertheless be subject to other federal, state or local laws or non-U.S. laws that are substantially similar to Section 406 of ERISA or Section 4975 of the Code (Similar Law).

This summary is general in nature and is not intended to be all-inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions or violations of Similar Law, it is particularly important that fiduciaries, or other persons considering purchasing or holding any notes (or interest therein) on behalf of, or with the assets of, any Benefit Plan Investor or Similar Law plan, consult with their counsel.

U.S. Department of Labor Regulations (29 U.S. C.F.R. 2510.3-101 as modified by Section 3(42) of ERISA, the ''Plan Asset Regulations'', generally provide that when a Benefit Plan Investor subject to Part 4 of Subtitle B of Title I of ERISA or Section 4975 of the Code (a Covered Plan) acquires an ''equity interest'' in an entity that is neither a ''publicly offered security'' (as such terms are defined in the Plan Asset Regulations) nor a security issued by an investment company registered under the U.S. Investment Company Act, the Covered Plan's assets include both the equity interest and an undivided interest in each of the underlying assets of the entity unless it is established either that equity participation in the entity by the Covered Plan is not ''significant'' or that the entity is an ''operating company,'' in each case as defined in the Plan Asset Regulations. For purposes of the Plan Asset Regulations, equity participation in an entity by Covered Plans will not be ''significant'' if they hold, in the aggregate, less than 25% of the

value of each class of equity interests of such entity, excluding equity interests held by any person (other than a Benefit Plan Investor) who has discretionary authority or control with respect to the assets of the entity or who provides investment advice for a fee (direct or indirect) with respect to such assets, and any affiliates of such person (the significant participation test).

For purposes of the Plan Asset Regulations, (i) the notes will not constitute ''publicly offered securities'' and (ii) the issuer will not be an investment company registered under the U.S. Investment Company Act. Moreover, no one will monitor the significant participation test.

Under the Plan Asset Regulations, the term ''equity interest'' means any interest in an entity other than an interest that is treated as indebtedness under applicable local law and which has no substantial equity features. There are no regulations, published rulings or judicial decisions addressing the characterization for ERISA purposes of securities issued under the same circumstances and with substantially the same terms as the notes. The company believes and intends to take the position that the notes do not constitute ''equity interests'' for purposes of the Plan Asset Regulations. There can be no assurance, however, that the U.S. Department of Labor or the courts would agree with such characterization. If the notes were deemed to constitute ''equity interests'' and Benefit Plan Investors held a significant portion of the notes, and provided that no other exception from the treatment as ''plan assets'' applied, the issuer's assets would be deemed to include ''plan assets'' subject to the fiduciary provisions of Section 406 of ERISA and the prohibited transaction provisions of ERISA and Section 4575 of the Code.

Whether or not the assets of the issuer are deemed to include ''plan assets'', the acquisition and/or holding of any notes (or an interest therein) by a Benefit Plan Investor with respect to which the issuer, it affiliates and other parties connected with the offering are considered a party in interest or a disqualified person may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless the investment is acquired and is held in accordance with an applicable statutory, class or individual prohibited transaction exemption. In this regard, the U.S. Department of Labor has issued prohibited transaction class exemptions, or ''PTCEs,'' that may apply to the acquisition and holding of the notes. These class exemptions include, without limitation, PTCE 75-1, which exempts certain transactions between a plan and certain broker dealers, reporting dealers and banks, PTCE 84-14 respecting transactions determined by independent qualified professional asset managers, PTCE 90-1 respecting insurance company pooled separate accounts, PTCE 91-38 respecting bank collective investment funds, PTCE 95-60 respecting life insurance company general accounts and PTCE 96-23 respecting transactions determined by in-house asset managers, although there can be no assurance that all of the conditions of any such exemptions will be satisfied. In addition, the statutory service provider exemption provided by Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code, which exempts certain transactions between plans and parties in interests that are not fiduciaries with respect to the transaction, could apply.

We cannot provide any assurance that any of these class exemptions or statutory exemptions will apply with respect to any particular investment in the notes by, or on behalf of, a Benefit Plan Investor or, even if it were deemed to apply, that any exemption would apply to all transactions that may occur in connection with the investment.

Because of the foregoing, the notes (and any interest therein) may not be purchased or held by any person investing ''plan assets'' of any Benefit Plan Investor or employee benefit plan that is subject to a Similar Law, unless such purchase and holding will not constitute or result in a non-exempt prohibited transaction under ERISA and the Code or similar violation of any applicable Similar Laws.

Accordingly, by its purchase and holding of any notes (or any interest therein), each purchaser thereof and each transferee will be deemed to have represented and agreed either that: (i) it is not and for so long as it holds notes (or any interest therein) will not be (and is not acquiring the notes directly or indirectly with the assets of a person who is or while the notes are held will be) a Benefit Plan Investor or employee benefit plan that is subject to Similar Law, or (ii) its purchase and holding of the notes will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of another employee benefit plan subject to Similar Law, a violation of any Similar Law.

In addition, fiduciaries and other plan investors should also consider the fiduciary standards under ERISA or other Similar Law in the context of the plan's particular circumstances before authorizing an investment of plan assets in the notes. Among other factors, fiduciaries and other plan investors should consider whether the investment:

- satisfies the diversifications requirement of ERISA or other Similar Law;

- complies with the plan's governing instruments; and
- is prudent in light of the ''Risk Factors'' and other factors discussed in this prospectus.

The foregoing discussion is general in nature and is not intended to be all-inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries, or other persons considering purchasing the notes on behalf of, or with the assets of, any Benefit Plan Investor, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such investment and whether an exemption would be applicable to the purchase and holding of the notes.

GENERAL INFORMATION

1. The Regulation S Global Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg under the following reference numbers:

	ISIN	Common Code
2018 Regulation S Global Note	XS0919502434	091950243
2023 Regulation S Global Note	XS0919504562	091950456

   The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855, Luxembourg.

2. The Rule 144A Global Notes have been accepted for clearance through the facilities of DTC under the following reference numbers:

	ISIN	CUSIP
2018 Rule 144A Global Note	US549876AG58	549876 AG5
2023 Rule 144A Global Note	US549876AH32	549876 AH3

   The address of DTC is 55 Water Street, New York, New York 10041-0099, United States of America.

3. It is expected that listing of the notes on the Official List and admission of the notes to trading on the London Stock Exchange's regulated market will be granted on or about 24 April 2013, subject only to the issue of the Global Notes. Prior to official listing and admission to trading, however, dealing will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in dollars and for delivery on the third working day after the day of the transaction.

4. The Issuer and LUKOIL have obtained all necessary consents, approvals and authorisations in The Netherlands and the Russian Federation in connection with the issue and performance of the notes and the guarantees in respect of the notes. The issue of the notes was authorised by a resolution of the Board of Directors of the Issuer dated 9 April 2013.

5. (i) There has been no material adverse change in our prospects since 31 December 2012, the date of our last published audited financial statements.

   (ii) There has been no significant change in our financial or trading position since 31 December 2012, the end of the last financial period for which audited financial information has been published.

   (iii) There has been no material adverse change in the prospects of the Issuer since 31 December 2012, the date of Issuer's last published audited financial statements.

   (iv) There has been no significant change in the financial or trading position of the Issuer since 31 December 2012, the end of the last financial period for which audited financial information has been published.

6. Copies of the latest annual report and accounts of LUKOIL may be obtained, and copies of the trust deeds (the first constituting the 2018 notes and the second constituting the 2023 notes), including the guarantees, and the agency agreements (the first for the 2018 notes and the second for the 2023 notes) will be available for inspection, at the specified offices of each of the Agents during normal business hours, so long as any of the notes is outstanding.

7. The audited financial statements included in this prospectus have been audited by ZAO KPMG, independent auditors, whose address is 10 Presnenskaya Naberezhnaya, 123317 Moscow, Russia. ZAO KPMG is a member of the Audit Chamber of Russia.

8. KPMG Accountants N.V. have rendered an unqualified audit report on the financial statements of the Issuer as of 31 December 2011 and 31 December 2012 and for the years then ended. KPMG Accountants N.V. is a member of the Royal Netherlands Institute of Registered Accountants.

9. Copies (and accurate/direct English translations where the document in question is not in English) of the following documents may be inspected at the offices of Akin Gump LLP, Eighth Floor,

Ten Bishops Square, London E1 6EG, United Kingdom during usual business hours on any weekday (Saturdays and public holidays excepted) for the life of this prospectus:

(i) Charter of LUKOIL;

(ii) the Articles of Association of the Issuer;

(iii) the reserves reports prepared by Miller and Lents referred to in this prospectus;

(iv) the audited annual consolidated accounts of the Group prepared in accordance with U.S. GAAP for the years ended 31 December 2010, 2011 and 2012;

(v) the audited annual accounts of the Issuer prepared in accordance with Book 2, Part 9 of the Netherlands Civil Code as of 31 December 2011 and 31 December 2012 and for the years then ended, in each case together with the audit reports thereon; and

(vi) this prospectus together with any supplement to this prospectus or further prospectus.

10. The Noteholders should note that the Trustee may act, or not act, and rely on (and shall have no liability to Noteholders for doing so) certificates or reports provided by our auditors whether or not addressed to the Trustee and whether or not any such certificate or report is subject to any limit on the liability of our auditors (whether by reference to a monetary cap or by reference to the methodology to be employed in producing the same).

11. Other than as disclosed in this prospectus, there are no material contracts not entered into in the ordinary course of the Issuer's or LUKOIL's business which could result in any member of the Group being under an obligation or entitlement that is material to the Issuer's or LUKOIL's ability to meet its obligations to Noteholders in respect of the notes being issued.

REGULATION OF THE OIL INDUSTRY IN THE RUSSIAN FEDERATION

The following information relating to the regulation of the oil industry in the Russian Federation is for background purposes only. This information has been extracted from publicly available sources. LUKOIL has not independently verified the following information. Although LUKOIL accepts responsibility for extracting and reproducing such information accurately, none of LUKOIL or any of the Joint Lead Managers accepts responsibility for the accuracy of such information.

Set forth below are certain key provisions of the Russian legislation relating to the oil industry applicable to the Group. This description is not comprehensive and is qualified in its entirety by reference to applicable Russian law.

Applicable Legislation

The regulation of the oil industry in the Russian Federation is primarily based on the following laws:

- Parts One, Two, Three and Four of the Civil Code of the Russian Federation (generally effective 1 January 1995, 1 March 1996, 1 March 2002 and 1 January 2008, respectively), as amended (the Civil Code);
- Federal Law No. 208-FZ on Joint Stock Companies dated 26 December 1995, as amended;
- Federal Law No. 14-FZ on Limited Liability Companies dated 8 February 1998, as amended;
- Federal Law No. 225-FZ on Production Sharing Agreements dated 30 December 1995, as amended (the PSA Law);
- Law No. 2395-1 on Subsoil dated 21 February 1992, as amended;
- Federal Law No. 69-FZ on Gas Supply in the Russian Federation dated 31 March 1999, as amended;
- Federal Law No. 117-FZ on Export of Gas dated 18 July 2006;
- Federal Law No 135-FZ on Protection of Competition dated 26 July 2006, as amended (the Antimonopoly Law);
- Federal Law No. 147-FZ on Natural Monopolies dated 17 August 1995, as amended;
- Parts One and Two of the Tax Code of the Russian Federation (effective 1 January 1999 and 1 January 2001, respectively), as amended;
- the Customs Code of the Customs Union (annex to the Agreement on Customs Code of the Customs Union adopted by Resolution No. 17 of the Interstate Council of EurAsEc at the level of heads of state of 27 November 2009), as amended;
- 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, as amended (the Law on Strategic Enterprises);
- the Land Code of the Russian Federation dated 25 October 2001, as amended (the Land Code);
- Federal Law No. 7-FZ on Environment Protection dated 10 January 2002, as amended (the Environment Protection Law);
- Federal Law No. 39-FZ on the Securities Market dated 22 April 1996, as amended; and
- Federal Law No. 46-FZ on Protection of Rights and Legitimate Interests of Investors at Securities Market dated 5 March 1999, as amended.

The Regulatory Authorities

At the federal level, regulatory authority over the oil industry is divided primarily between Ministry of Energy of the Russian Federation, which replaced the Ministry of Industry and Energy of the Russian Federation pursuant to Presidential Decree No. 724 dated 12 May 2008 (Decree No. 724), and the Ministry of Natural Resources and Ecology of the Russian Federation, which replaced the Ministry of Natural Resources of the Russian Federation pursuant to Decree No. 724. The Ministry of Energy of the Russian Federation sets governmental policy for the industry, drafts legislation regulating the energy sector and has the enforcement authority and the functions of providing state services and property management. The Ministry of Natural Resources and Ecology of the Russian Federation is involved in

the licensing of subsoil resources and also regulates exploration and geological prospecting for the oil and gas industries.

The federal ministries in Russia are not, however, responsible for the compliance, control or management of the state property and provision of state services, which are generally directed by the federal services and the federal agencies, respectively. On the basis of Presidential Decree No. 314 dated 9 March 2004 (Decree No. 314), the control and surveillance functions related to use of natural resources and ecology are fulfilled by the Federal Service for the Supervision of the Use of Natural Resources of the Russian Federation, and the law enforcement functions related to subsoil use are fulfilled by the Federal Agency for Subsoil Use of the Russian Federation. Prior to enactment of Decree No. 314, the functions of these two federal authorities were performed by the Ministry of Natural Resources of the Russian Federation. The Federal Service for the Supervision of the Use of Natural Resources of the Russian Federation and the Federal Agency for Subsoil Use of the Russian Federation are subordinate to the Ministry of Natural Resources and Ecology of the Russian Federation.

Among other things, the Federal Agency for Subsoil Use of the Russian Federation is responsible for organising tenders and auctions for the award of subsoil licences, issuing, suspension and terminating subsoil licences and supervising the compliance by licence holders with the terms of such licences.

The Federal Service for Ecological, Technological and Nuclear Surveillance of the Russian Federation (Rostekhnadzor) is a federal authority which is also subordinate to the Ministry of Natural Resources and Ecology of the Russian Federation and which, among other things, issues or authorises other organisations to issue industrial safety certificates.

The Federal Antimonopoly Service (FAS) is authorized to pursue state policy aimed at promoting the development of the commodity markets and competition, at exercising state control over the observance of antimonopoly legislation and at preventing and terminating monopolistic activity, unfair competition and other actions restricting competition. Among other functions, FAS oversees the acquisition of controlling stakes in companies with dominant market positions and activities of natural monopolies.

The FTS, which replaced the Federal Energy Commission following Decree No. 314, and the Ministry of Energy of the Russian Federation coordinate activities of various federal executive agencies to address issues in the oil industry, including, among others, issues related to access to Transneft's pipeline and tariffs for services rendered by Transneft.

Generally, regional authorities with jurisdiction over the specific area in which an oil and gas project, pipeline, refinery or other enterprise is located have substantial authority. Regional and local authorities usually control regional and local (respectively) land-use allocations.

Strategic Investments

Strategic Enterprises

The Law on Strategic Enterprises establishes certain restrictions and special procedures for foreign investments in sectors of strategic importance to Russian national defence and security by imposing restrictions on the acquisition of control over Russian commercial entities that operate in such sectors (Strategic Enterprises) and by establishing an approval procedure for the acquisition of such control. In particular, it sets forth a general prohibition on transactions resulting in the acquisition of control over Strategic Companies by foreign states, international organisations or organisations under their control, including those incorporated in the territory of the Russian Federation, (Foreign Sovereign Acquirers) and requires that other foreign investors obtain consent of the Governmental Commission for Control over Foreign Investments in the Russian Federation (the Commission) for the acquisition of control over Strategic Companies.

In November 2011, amendments to the Law on Strategic Enterprises introduced a number of exemptions from the clearance requirements. In particular, they provide that the Law on Strategic Enterprises shall not apply to transactions concerning Strategic Enterprises made between entities under control of the Russian Federation or citizens of the Russian Federation who are its tax residents, except for individuals with dual citizenship, i.e., if both the seller and the buyer are ultimately controlled by the Russian Federation or Russian citizens. Furthermore, these amendments exempt from the clearance requirement transactions undertaken by international financial organisations established in accordance with international treaties to which the Russian Federation is a party or international financial organisations with which the Russian Federation has entered into a treaty. The Russian Government publishes the list of such organisations, which currently includes, inter alia, the International Bank for Reconstruction and Development (IBRD), the European Bank for Reconstruction and Development

(EBRD) and the International Finance Corporation (IFC). The exemption does not affect, however, the aforementioned general prohibition under the Law on Strategic Enterprises for Foreign Sovereign Acquirers to acquire control over the Strategic Companies.

Subsoil areas of federal importance

The Law on Strategic Enterprises defines a number of activities that are considered to be strategically important for Russia, including geological survey and/or exploration and production of mineral resources within subsoil areas of ''federal importance'' (Strategic Deposits). The criteria for determining whether a subsoil mineral deposit is a Strategic Deposit are set out in the Subsoil Law. These include, *inter alia*, subsoil deposits (i) that contain 70 million tonnes or more of recoverable oil reserves and/or 50 billion cubic metres or more of gas reserves; or (ii) that are located in internal sea waters, territorial sea or on the continental shelf of the Russian Federation; or (iii) whose use requires the use of land plots designated for defence or security purposes.

The list of Strategic Deposits has been published in an official publication of the Russian Federation. Once a subsoil deposit has been included in such list, it will retain its status as a deposit of federal significance, notwithstanding any changes in the requirements set out in the Subsoil Law.

Strategic Deposits, except for Strategic Deposits located on or extending into the continental shelf of the Russian Federation, may be used only by legal entities established in the Russian Federation, unless the Russian Government sets out additional restrictions in accordance with the Subsoil Law on the participation of legal entities incorporated in accordance with the Russian legislation with foreign investors' participation in the auctions for the right to use Strategic Deposits. Strategic Deposits located on or extending into the continental shelf of the Russian Federation may be used only by Russian legal entities (i) which have no less than five years' experience developing continental shelf deposits in Russia; and (ii) in which the Russian Federation holds more than 50% of the total votes represented by the share capital of such entity, or otherwise controls (directly or indirectly) more than 50% of the total number of votes.

Approval requirements

The Law on Strategic Enterprises generally requires a prior approval of the Commission for the acquisition of direct or indirect control over Strategic Companies by a company that is under foreign control. The Law on Strategic Enterprises imposes a stricter definition of control (and therefore threshold for approval) in relation to Strategic Enterprises conducting geological study and/or exploration and production of hydrocarbons/minerals in Strategic Deposits (the Strategic Subsoil Users) than is required for other types of Strategic Companies. A person is deemed to control a Strategic Subsoil User if such person: (i) has (direct or indirect) control over 25% or more of the votes represented by the shares in the capital of the Strategic Subsoil User; or (ii) has the right (pursuant to an agreement or otherwise) to determine decisions of the Strategic Subsoil User, including the terms of its business operations; or (iii) has the right to appoint the Strategic Subsoil User's general director and/or 25% or more of the members of its management board; and/or (iv) has an unconditional ability to procure the election of 25% or more of the members of the Strategic Subsoil User's board of directors or other management body; or (v) acts as a management company for the Strategic Subsoil User.

Moreover, the Law on Strategic Enterprises requires prior approval of acquisitions by a Foreign Sovereign Acquirer of direct or indirect control over more than 5% of the votes represented by the shares/ participatory interests of the Strategic Subsoil User or the ability to block decisions of the management bodies of such entity. At the same time, the Law on Strategic Enterprises exempts from the regime foreign investments in the Strategic Subsoil Users, 50% or more votes in which are directly or indirectly controlled by the Russian Federation. The exemption does not cover rules regarding foreign investment in the Strategic Subsoil Users by Foreign Sovereign Acquirers.

Licences and Permits

Federal Law No. 99-FZ on Licensing of Certain Types of Activities, dated 4 May 2011 (as amended) and the Subsoil Law, as well as other laws and regulations, list activities which can only be performed subject to licences issued by the relevant Russian authorities and establish procedures for issuing such licences. In particular, to conduct its operations, a company may be required to hold licences and permits for, *inter alia*:

- use of the subsoil, see ''—*Subsoil Production Licenses*'';
- discharge of pollutants into the environment;

- collection, use, detoxification, transportation and placement of hazardous waste;
- storage, use, realisation and utilisation of explosive materials of industrial use;
- use (operation) of explosive/inflammable or chemically hazardous facilities; and
- fire extinguishing.

Subsoil Production Licences

Under the Regulation on Licensing of Subsoil Use No. 3314-1 dated 15 July 1992, as amended (the Regulation), and the Subsoil Law, subsoil plots are provided for the purposes of production of mineral resources for the term of operation of the field, calculated on the basis of a feasibility study for the development of natural resource deposits providing for the rational use and protection of the subsoil. This regime was introduced in 2000 and did not affect the terms of licenses issued prior to January 2000, however it permits license holders to apply for extensions of such licences in accordance with the amended Subsoil Law, provided that the licence holder complies with the licence terms and applicable regulations. Prior to January 2000, exploration and production licences had a maximum term of 20 years and combined geological survey, exploration and production licences a maximum term of 25 years. Since December 2007, geological exploration licences may have a maximum term of 5 years, except for licences for geological exploration of subsoil resources of internal sea waters, territorial seas and the continental shelf of the Russian Federation, which may have a maximum term of up to 10 years.

A licence holder has the right to develop and sell oil extracted from the area indicated in the licence. The Russian Federation, however, retains ownership of all subsoil resources at all times, and the licence holder only has rights to the crude oil or other relevant types of mineral resources when extracted.

Generally, a licence cannot be held by more than one legal entity. A subsoil exploration and production licence gives its holder exclusive subsoil use rights with respect to an identified licence area (including subsurface zones) for the term of the licence.

Restrictions related to strategic deposits

The Russian Government may restrict participation in any auction for the right of subsoil use in a Strategic Deposit with respect to Russian entities in which foreign investors directly or indirectly hold shares.

In respect of a Strategic Deposit, exploration and production or combined (geological survey, exploration and production) licences may only be issued. Such licences are issued pursuant to a decision of the Russian Government based on the results of an auction, or upon the discovery of a deposit that becomes a Strategic Deposit. Under a combined licence, exploration and production operations in a Strategic Deposit may only commence after the geological survey operations are fully completed, and commencement of exploration and production in the Strategic Deposit is authorised by a Russian Government decision. This is different from the general rule (applicable to other deposits) that exploration and production under a combined licence may be conducted simultaneously with geological survey.

Geological survey licences may be issued for subsoil deposits that do not qualify as Strategic Deposits. If in the course of such geological survey a discovery is made which results in the relevant deposit meeting the Strategic Deposit criteria, issuance of the advanced exploration and production licence to the subsoil user that has made the discovery may be denied by decision of the Russian Government if the subsoil user is an entity in which a foreign investor directly or indirectly has an interest, and a threat to the national defence and security of Russia is deemed to have arisen. If the relevant discovery is made under a combined licence by an entity in which a foreign investor has an interest, the Russian Government has the right to terminate the licence.

If issuance of the exploration and production licence is denied, or a combined licence is terminated, the affected subsoil user is entitled to reimbursement of certain costs it incurred in the prospecting and appraisal of the discovered deposit and (in case of termination of a combined licence) of the one-time payment made under the terms of such licence. This reimbursement and certain other compensation will be payable from the federal budget pursuant to a procedure established by the Russian Government.

Issuance of licences

Most of the currently existing subsoil licences owned by companies derive from (i) pre-existing rights granted during the Soviet era and up to the enactment of the Subsoil Law to state-owned enterprises that

were subsequently reorganised in the course of post-Soviet privatisations, or (ii) tender or auction procedures held in the post-Soviet period.

At present, subsoil licences are generally issued by the Federal Agency for Subsoil Use of the Russian Federation. The Civil Code, the Subsoil Law and the Regulation contain the major requirements relating to tenders and auctions for granting subsoil licences. The Subsoil Law allows for exploration and production licences to be issued without a tender or auction procedure only in a limited number of circumstances, such as when a mineral deposit is discovered by the licence holder who performed geological exploration of the discovered mineral deposit at its own expense.

The Strategic Deposits in the continental shelf of the Russian Federation, and in the subsoil areas of federal importance located in the territory of the Russian Federation and partially located in its continental shelf, may be used by legal entities, which are organised under the laws of the Russian Federation, have at least 5 years experience in the development of subsoil areas located in the continental shelf of the Russian Federation and in which the Russian Federation holds an equity or voting interest of more than 50%. In August 2012, the FAS prepared draft amendments to the Subsoil Law that appear to exclude the requirement that the Russian Federation hold an equity or voting interest of more than 50% in the legal entity holding the subsoil rights. Such amendments have not yet been passed and it is unclear how these amendments may affect our activities.

Licences cannot be sold or transferred to another entity except in certain limited circumstances specified by the Subsoil Law, such as to an affiliated company in the event of the reorganisation of a company, to a licensee's subsidiary or to a licensee's parent company, to a company that was newly formed for the purpose of holding a transferred licence if the licensee holds a 50% or greater stake or interest in such newly formed company, together with the transfer of the property necessary to operate the licence.

The Subsoil Law prohibits the transfer of a subsoil area of federal importance to any entity in which a foreign investor has the ability to (i) directly or indirectly control 10% or more of its voting shares or interest, (ii) control its management by contract or otherwise, or (iii) appoint its chief executive officer or more than 10% of its executive officers or members of its board of directors or other management committee. Such transfer is only permitted in limited circumstances pursuant to a decision of the Russian Government.

Maintenance and termination of licences

A licence granted under the Subsoil Law is generally accompanied by a licensing agreement. There are typically two parties to any subsoil licensing agreement: the federal authority (or its local authority) and the licensee. The licensing agreement sets out the terms and conditions for the use of the subsoil licence.

Under a licensing agreement, the licensee makes certain environmental, safety and production commitments. For example, the licensee makes a production commitment to bring the field into production by a certain date and to extract an agreed upon volume of natural resources each year, as well as to conduct agreed drilling and other exploratory and development activities, to protect the environment in the licence area from damage and also to provide geological information and data to the relevant authorities. The licence agreement may also contain commitments with respect to the region's social and economic development.

Governmental authorities may undertake periodic reviews for ensuring compliance by subsoil licence users with the terms of their licences and applicable legislation.

The license may be terminated, suspended or limited by the licensing authorities upon notice in the following events:

- upon the emergence of a direct threat to the life or health of people working or residing in the area affected by the operations under the licence;
- a breach or violation of material terms and conditions of the licence by the licensee;
- repeated violation of the established subsoil use rules by the licensee;
- the failure of the licensee to commence operations within a specified period of time and at required volumes, both as indicated in the licence;
- the occurrence of an emergency situation (natural disasters, war, etc.);
- the liquidation of the licensee; and
- the non-submission of reporting data in accordance with the legislation.

The licensee is also fined in case of a material breach of the license terms. Government authorities, such as the Federal Service for the Supervision of the Use of Natural Resources and Rostekhnadzor, undertake periodic reviews for ensuring compliance by subsoil license users with the terms of their licences and applicable legislation. Although the Subsoil Law as well as administrative law regulations do not specify which terms of a licence are material, failure to pay subsoil taxes and failure to commence operations in a timely manner have been common grounds for limitation, suspension or termination of the rights of a subsoil user. Consistent overproduction or underproduction and failure to meet obligations to finance a project (as opposed to the levels set up in the licensing agreement) would also be likely to constitute violations of material license terms.

When a licence expires, the licensee must return the land to a condition which is adequate for future use. Although most of the conditions set out in a licence are based on mandatory rules contained in Russian law, certain provisions in a licensing agreement are left to the discretion of the licensing authorities and are often negotiated between the parties. However, commitments relating to safety and the environment are generally not negotiated.

The fulfilment of a licence conditions is a major factor in the good standing of the licence. If the subsoil licensee fails to fulfil the licence conditions, upon notice, the licence may be terminated by the licensing authorities. However, if a subsoil licensee cannot meet certain deadlines or achieve certain volumes of exploration work or production output as set forth in a licence, it may apply to amend the relevant licence conditions, although such amendments may be denied.

If the licensee disagrees with a decision of the licensing authorities, including a decision relating to a licence termination or the refusal to re-issue an existing licence, the licensee may appeal the decision through administrative or judicial proceedings. In certain cases of termination, the licensee has the right to attempt to cure the violation within three months of its receipt of notice of the violation. If the issue has been resolved within such a three-month period, no termination or other action may be taken.

Extension of licences

The Subsoil Law provides that, upon expiration of a licence, it is subject to renewal and extension for the economic life of the relevant field at the initiative of the licence holder as long as the licence holder did not violate the terms of its licence and as long as completion of the exploration, appraisal, production or remediation activities is necessary.

Land Use Permits

In addition to a subsoil production licence, Russian oil companies are required to obtain rights to use surface land within the specified licensed area as Russian legislation prohibits any commercial activity, including mineral extraction activities, on a land plot without appropriate land use rights. Under the Land Code, Russian legal entities generally have one of the following rights with regard to land in the Russian Federation: (i) ownership, (ii) lease or (iii) right of free use for a fixed term.

Most land plots in the Russian Federation are owned by federal, regional or municipal authorities who, through public auctions, tenders or negotiations, can sell, lease or grant other use rights to the land to third parties. Under the Land Code, the land that is in state and municipal ownership and required for the subsoil use is leased to subsoil users without holding an auction or tender.

Companies may have also been granted a right of perpetual use of land that was acquired prior to the enactment of the Land Code; however, Federal Law No. 137-FZ on Introduction of the Land Code dated 25 October 2001, as amended, with certain exceptions, requires companies using land pursuant to rights of perpetual use either to have purchased the land from, or to have entered into a lease agreement relating to, the land with the relevant federal, regional or municipal authority owner of the land by 1 July 2012. The violation of the requirement thereof is being penalised under administrative law regulations enacted as from 1 January 2013.

Fees Payable by Subsoil Production Licensee

The Subsoil Law provides for the basic framework of payments applicable to licence holders, including: (i) one time payments in cases specified in the licence, (ii) regular payments for the subsoil use (i.e., rentals paid for the right to conduct prospecting and exploration works) and (iii) fees for the right to participate in auctions or tenders. In addition, subsoil users must also pay other taxes and fees established under the Tax Code of the Russian Federation.

Environmental Protection

Operations of Russian oil companies are subject to extensive federal and regional environmental laws and regulations. These laws and regulations set standards for health and environmental quality, provide for penalties and other liabilities for the violation of such standards and establish, in certain circumstances, obligations to compensate for environmental damage and restore environmental conditions.

The Environment Protection Law establishes what is effectively a ''pay-to-pollute'' regime administered by Rostekhnadzor, which issues pollution discharge limits. In accordance with Decree No. 314, control over environmental quality and natural resources use is exercised by the Federal Service for the Supervision of the Use of Natural Resources.

Fees are assessed both for pollution within the limits agreed on emissions and effluents and for pollution in excess of these limits. The fees are calculated mainly based on the Decree of the Russian Government No. 344 dated 12 June 2003 ''On Rates of Payments for Pollutant Emissions into the Air by Stationary and Mobile Sources, Pollutant Disposals into Surface and Underground Waters, Disposal of Production and Consumption Waste'', as amended, and certain other regulations. Additional fines may be imposed for certain other breaches of environmental regulations. The environmental protection legislation contains an obligation to make compensation payments to the budget for all environmental losses caused by pollution. In the event of a dispute concerning losses caused by breaches of environmental laws and regulations, the prosecutor's office or other authorised governmental bodies may bring an action, and although there is no private right of action for monetary relief, courts may impose clean-up obligations subject to the agreement of the parties in lieu of or in addition to imposing fines. In certain cases breaches of environmental laws and regulations may also lead to criminal liability of guilty persons under the Criminal Code of the Russian Federation.

Subsoil licences generally require certain environmental commitments. Although the commitments may be stringent in a particular licence, the penalties for failing to comply with such commitments are generally low. However, governmental authorities impose onerous clean-up requirements requiring significant resources.

Natural resource development matters are subject to periodic environmental evaluation. While in the past these evaluations generally have not resulted in substantial limitations on natural resource exploration and development activities, they are expected to become increasingly strict in the future. Currently, conducting operations that may cause damage to the environment without state ecological expertise may result in negative consequences. Thus, if the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, the environmental authorities may suspend these operations or a court action may be brought to limit or ban these operations and require the company to remedy the effects of the violation. Any company or employee that fails to comply with environmental regulations may be subject to administrative and/or civil liability and individuals (including managers of legal entities) may be held criminally liable. Courts may also impose clean-up obligations on violators in lieu of or in addition to imposing fines. The limitation period for compensation claims regarding damages caused by pollution is 20 years.

The Subsoil Law and the Regulation also provide that a subsoil licence must include a provision establishing the procedure for the restoration of the site and recultivation of the land plot upon termination of the subsoil licence. This procedure generally requires the licensee to submit, for the approval of regional authorities, a proposed plan detailing the timeframe and actions the licensee will undertake to restore the site and recultivate the land plot. Additional requirements in respect of restoration of the environment, recultivation of land and compensation of damage to the environment are prescribed by the Environment Protection Law.

Oil Spills and Oil Contamination

Any contamination of soil and ground water resulting from oil spills may create a number of obligations on the responsible company.

On 21 August 2000, the Russian Government approved the Basic Requirements for the Plans of Prevention and Clean-up of Oil Spills, which obliges companies to develop plans for the prevention and clean-up of oil spills. Such plans are approved by a number of Russian authorities. A further resolution of the Russian Government (No. 240 of 15 April 2002 ''On approval of the Rules for Organisation of the Prevention and Liquidation of the Spills of Oil and Petroleum Products'') requires crude oil producing,

transportation, refinery and storage companies to have their own dedicated human, technical and financial resources to clean-up oil spills as and when they occur.

In addition, the Environmental Protection Law and the Land Code contain provisions relating to the payment of compensation for damage resulting from the contamination of the land. According to Article 14 of the Land Code, if a company's activities cause chemical contamination of the land, making it impossible to use such land for a ''designated purpose'', or reduce its quality generally, the relevant company must pay compensation to the owner of the land in respect of such damage, any agricultural losses and costs of cleaning up the land so that it can again be used for its ''designated purpose''. Companies that damage the fertile soil layer of land during construction or other activities are required to restore the land at the end of their activities at their own expense and in accordance with restoration programmes approved by environmental experts, pursuant to the Resolution of the Government of the Russian Federation No. 140 of 23 February 1994 ''On Restoration of Land and Removal, Storage and Use of the Fertile Soil Layer''. According to the Water Code of the Russian Federation, water users are required to take measures to prevent and clean-up accidents that may affect the condition of rivers, lakes or other bodies of water. Facilities for the transportation and storage of crude oil cannot operate without devices for the prevention of contamination of rivers, lakes or other bodies of water and for the control and detection of oil spills.

Gas Flaring Operations

Russian oil producers, including the Group, flare a portion of the gas produced in their fields. Consequently, such oil producers are subject to state-imposed charges for excess gas flared, which have increased in recent years. These charges are levied in accordance with regulations of the Ministry of Natural Resources and Ecology of the Russian Federation and applicable regulations of the Russian Government. Limitations on gas flaring may be established in the licences.

Starting from January 2013 the amount of the emission charge for excess gas flared was increased although the gas flaring limit remains at the level of 5% of the amount of associated gas produced comparing to year 2012. In 2013 any associated gas flared in excess of the established limit results in increased emission charges per a coefficient equal to 12. The amount of the emission charge coefficient starting from January 2014 is established at 25.

Crude Oil and Refined Product Transportation Regime

From 1995, as part of a scheme to deregulate prices and liberalise export controls, the Russian Government established equal pipeline and sea terminal access procedures for all oil companies in proportion to the actual production volume of each company. This system allowed Russian oil companies to export, on average, 35% of the oil they produced.

In August 2001, the Russian Government began implementing reforms relating to the allocation of pipeline and sea terminal access rights, and since September 2001, pipeline and sea terminal access rights have been distributed among oil producers and their parent companies in proportion to the volumes of oil they produce and actually deliver to the Transneft pipeline system (and not solely in proportion to the volumes of oil they produce).

The allocation of pipeline and sea terminal access rights is currently overseen by the Ministry of Energy of the Russian Federation. The Ministry of Energy of the Russian Federation approves on a quarterly basis schedules that, among other things, detail the precise volumes of oil that each oil producer can pump through the Transneft pipeline system. Once access rights are allocated, oil producers generally cannot increase their allotted capacity in the export pipeline system, although they do have some limited flexibility in altering delivery routes. Oil producers are generally allowed to assign their access rights to third parties.

Transneft has a very limited ability to transport individual batches of crude oil, with the result that crude oil of differing qualities, delivered in the pipeline system, is blended. Transneft does not currently operate a ''quality bank'' system whereby companies shipping heavy and sour crude oil would compensate the shippers of higher-quality crude oil for the deterioration in the crude quality arising from blending. Although the introduction of such a compensatory system is currently under discussion between Transneft and the Russian Government, these proposals are resisted by regions with lower-grade quality reserves. It should be noted, however, that based on announcements by Transneft representatives, the infrastructure necessary for the quality bank system is at a high level of development and the technical arrangements necessary for implementation of a quality bank system may be finished by the end of 2013.

Due to lack of a quality bank system the Group's sales of crude oil that it transports through the Transneft pipeline system are priced as the crude oil blend that results from the combination of different types and qualities of crude oil in the pipeline system, which is usually referred to as ''Urals blend'' crude oil. As a result, the price the Group gets for its oil may be lower than the price that it could get for oil of the same quality if the Group could transport oil independently of Transneft.

In accordance with Decree No. 314, the tariffs for using Transneft's pipelines are set by the FTS.

Production Sharing Agreements

The PSA Law sets forth general principles for investment in the exploration and production of minerals on a ''production sharing'' basis.

A production sharing agreement (PSA) is a contract between the Russian Government and an investor in which the investor agrees to bear the costs and risks of exploration and production of a mineral resource and the parties agree predetermined shares of the output.

The PSA Law governs petroleum operations carried out pursuant to PSAs. It establishes the principal legal framework for state regulation of PSAs relating to oil and gas field development and production. Under the PSA Law, the Russian Federation as a state is represented (in its relations with investors under PSAs) by the Russian Government or the state bodies authorised by it. The PSA Law contains stabilisation rules purporting to protect investors against adverse changes in federal and regional laws and regulations, including certain uncertainties in tax laws and regulations, save for legislative amendments of health and safety standards and environmental protection requirements. The PSA Law provides that operations conducted under a PSA pursuant to the PSA Law will be governed by the PSA itself. In case of conflict between the PSA Law and other Russian law requirements the PSA Law shall prevail, therefore the PSA shall not be affected by contrary provisions of any other laws, including the Subsoil Law.

Since the PSA Law was enacted, the legislature has approved a number of oil fields as eligible for PSA. Currently, few of these fields are subject to effective PSAs. As of the date of this Prospectus, the Group does not participate in any PSA in Russia.

Current System of Oil and Gas-Related Taxes and Duties

Crude Oil Extraction Tax Rate

Starting from 1 January 2013, the tax rate related to crude oil extraction amounts to RUB 470 per tonne of oil extracted, multiplied by: (i) the world oil prices dynamics factor, (ii) the depletion factor, which represents the depletion of an oil field and (iii) the reserves value factor, which represents the value of reserves of an oil field.

The world oil prices dynamics factor is calculated by the taxpayer independently on monthly basis by multiplying the monthly average world market price of Urals blend crude oil (in US$ per barrel), decreased by 15, by the average US$/RUB exchange rate within the tax period established by the Central Bank of the Russian Federation and dividing by 261.

The depletion factor depends on the ratio of accumulated volume of oil produced to the total volume of the oil field reserves (Depletion), based on reserves and production information reported to the Russian Government, and will equal:

- 1.0 for oil fields with a Depletion below 0.8, which means that the actual tax rate will not be affected by the Depletion;
- a value of (3.8 - 3.5 * Depletion) for oil fields with a Depletion of at least 0.8. In this instance, each 1% increase in the Depletion results in the reduction of the depletion factor by 3.5% and a corresponding decrease of the actual tax rate as compared to the standard tax rate;
- 0.3 for oil fields with a Depletion exceeding 1.0, which means that the actual tax rate will be equal to 30% of the standard tax rate.

Assuming the average monthly US$/RUB exchange rate is constant and the depletion factor equals 1.0, each increase in the average world market price of Urals blend oil by $1.00 per barrel will result in an increase of the tax rate by approximately $1.61 per tonne of oil extracted (or $0.22 per barrel of oil extracted using a conversion factor of 7.33 barrels/tonne).

The reserves value factor applies to oil fields with initial recoverable oil reserves of less than 5 million tonnes and with a level of depletion of reserves of less than or equal to 0.05. It is calculated as 0.125 * million tonnes of initial recoverable oil reserves + 0.375.

Depending on certain conditions (such as the production period in a subsoil licence, accumulated volume of production and depletion of an oil field), a zero tax rate may apply to extra-heavy crude oil as well as to crude oil produced in certain regions of Eastern Siberia, in oil fields north of the Arctic Circle fully or partially located within the boundaries of inland sea waters and the territorial waters, in the continental shelf of the Russian Federation or in the Azov and the Caspian seas. Starting 1 January 2012 a zero tax rate enacted for the resources extracted from the certain areas in the Black Sea and the Okhotsk See, and those located north of the 65 degrees North latitude within the borders of the Yamal-Nenets Autonomous Area is also applied.

Natural Gas Extraction Tax Rate

Starting on 1 January 2013, the tax rate related to gas condensate production amounts to RUB 590 per tonne of gas condensate extracted from all types of hydrocarbon deposit and it will be further increased to RUB 647 in 2014 and RUB 679 in 2015. Since 1 January 2013, the production of natural gas in Russia has been subject to taxation at the tax rate of RUB 582 per 1,000 cubic metres of natural gas extracted. The tax rate for extraction of natural gas shall be multiplied by 0.455 (for the period from 1 January 2013 through 30 June 2013 inclusive) in case a taxpayer within the whole tax period is not the owner of the facilities forming part of the Unified Gas Supply System or does not have the owners of the facilities forming part of the Unified Gas Supply System as its participants and the total share of such participation exceeds 50%. However, from 1 July 2013 through 31 December 2013, the tax rate related to natural gas extracted from all types of hydrocarbon deposit shall be increased to RUB 622 per 1,000 cubic metres and then multiplied by a coefficient of 0.646 with respect to the taxpayers mentioned above. The tax rate related to natural gas and the coefficient regarding the above-mentioned taxpayers will be increased to RUB 700 and 0.673, respectively, beginning 1 January 2014 and to RUB 788 and 0.701, respectively, beginning 1 January 2015 (Federal Law 214 FZ of 29 November 2012).

Export Duty Rates on Crude Oil and Oil Products

Since 1 December 2008, the export duty rate on crude oil is established by the Russian Government on a monthly basis based on the average world market price of Urals blend crude oil over the preceding month. In practice, this procedure of export duty rate determination results in a one-month gap between actual fluctuation of the average crude oil prices and the export duty rate based on those prices.

The effective Russian legislation provides for the maximum rates of crude oil export duties that may be established by the Russian Government based on the actual average world market price of Urals blend oil:

- for an average world market price of Urals blend oil of up to $15.00 per barrel ($109.50 per tonne using a conversion factor of 7.3 barrels/tonne), a zero export duty rate applies;
- for an average world market price of Urals blend oil from $15.00 to $20.00 per barrel ($109.50 to $146.00 per tonne) each $1.00 per barrel increase above $15.00 per barrel ($109.50 per tonne) results in $0.35 per barrel increase in the maximum allowable export duty rate;
- for an average world market price of Urals blend oil from $20.00 to $25.00 per barrel ($146.00 to $182.50 per tonne) each $1.00 per barrel increase above $20.00 per barrel results in an $0.45 per barrel increase of the maximum allowable export duty rate;
- for an average world market price of Urals blend oil exceeding $25.00 per barrel ($182.50 per tonne) each $1.00 per barrel increase above $25.00 per barrel results in an $0.65 per barrel increase of the maximum allowable export duty rate. Starting 1 October 2011 $0.60 rate instead of the maximum rate of $0.65 is used for the calculation of crude oil export duty rate, which, however, is not supported by any normative act.

The crude oil export duty rate established for April 2013 amounts to $55.00 per barrel ($401.50 per tonne).

Export duty rates on oil products are established by the Russian Government monthly mainly based on the international crude oil market conditions.

Starting 1 April 2013, the Russian Government has established special formulae for the calculation of export duty rate on crude oil with in-situ viscosity of at least 10,000 mPas for a period of 10 years as of the time the relevant reduced export duty rate applies, but not later than 1 January 2023.

The Russian Government may establish special formulae for the calculation of export duty rate on crude oil with specific physical and chemical characteristics extracted from the subsoil areas located wholly or partially:

- within the Republic of Sakha (Yakutia), the Irkutsk Region, the Krasnoyarsk Krai, the Nenets Autonomous District, further north than 65 degrees Northern latitude, wholly or partially within the Yamal-Nenets Autonomous District;
- within the Russian part (Russian sector) of the Caspian seabed;
- within the seabed of the inland sea waters of the Russian Federation;
- within the seabed of the territorial sea of the Russian Federation;
- within the continental shelf of the Russian Federation

Exports of crude oil and oil products to the members of the Customs Union (Belarus and Kazakhstan) for internal usage are not subject to export duties. At the same time customs duties should be paid when crude oil and or petroleum products are exported from the Customs Union members to the third counties (other than Russia, Kazakhstan, Belarus). In this case export customs duties are paid to the relevant customs authorities at the appropriate rates established by Russia and then are transferred to the Government of Russia.

Excise Tax Rates on Oil Products

The excise tax rates applicable for transactions in oil products in 2013 and 2014, respectively, are as follows:

Oil Product	Rate, RUB per tonne		
	(1 January-30 June) 2013	(1 July-31 December) 2013	2014
Gasoline:			
– Inconsistent with Class 3, 4 or 5	10,100.0	10,100.0	11,110.0
– Class 3	9,750.0	9,750.0	10,725.0
– Class 4	8,560.0	8,960.0	9,416.0
– Class 5	5,143.0	5,750.0	5,750.0
Diesel fuel:			
– Inconsistent with Class 3, 4 or 5	5,860.0	5,860.0	6,446.0
– Class 3	5,860.0	5,860.0	6,446.0
– Class 4	4,934.0	5,100.0	5,427.0
– Class 5	4,334.0	4,500.0	4,767.0
Motor oil	7,509.0	7,509.0	8,260.0
Straight-run gasoline	10,229.0	10,229.0	11,252.0

Regular Payments For the Use of Subsoil

Regular subsoil use payments depend on the size of the licence area (subsoil plot) provided to the subsoil user (the licensee), the kind of natural resources and location of subsoil plot (offshore or onshore plot). The current annual minimum and maximum rates of regular payments are set as follows: (1) the rate for the right to prospect and evaluate oil fields ranges from RUB 120 to RUB 360 per sq. km (from RUB 50 to RUB 150 per square kilometre for offshore subsoil plots (Russian continental shelf and areas outside the territory of Russia but under its jurisdiction)); and (2) the rate for the right to explore oil fields ranges from RUB 5,000 to RUB 20,000 per sq. km (from RUB 4,000 to RUB 16,000 per sq. km for offshore subsoil plots (Russian continental shelf and areas outside the territory of Russia but under its jurisdiction)).

Anticipated Changes in Legislation Regarding Oil-Related Taxes and Duties

Currently the Russian Government is considering certain amendments to the tax legislation regarding the oil and gas industry. Specifically, on 12 April 2012 the Government issued Regulation directing federal executive bodies and organizations to develop and submit to the government co-ordinated proposals pertaining to a proposed tax and customs regime for new projects for the development of offshore hydrocarbon deposits. The Ministry of Finance provides proposals regarding tax and customs regime which are not covered in the Regulation and in some instances proposes measures differing from what the Regulation prescribed. Generally it is proposed tax incentive and customs tariff measures with respect to shelf projects to stimulate investment in new projects for the development of offshore hydrocarbon deposits.

Protection of Competition

The anti-monopoly legislation of the Russian Federation is based on the Antimonopoly Law which sets forth the framework for regulation and other regulations governing the anti-monopoly issues. The Group must conduct its operations in compliance with the Antimonopoly Law, which provides for certain restrictions, such as an obligation to notify, or obtain the consent of, the antimonopoly authorities for actions/transactions that meet certain criteria. The Antimonopoly Law also prohibits certain actions by companies, holding a dominant market position (for example, setting monopolistically high or low prices for goods, works or services), engaging in unfair competition and entering into agreements that impede competition or concerted actions. The federal and regional antimonopoly authorities have ample powers, including the right to conduct investigations with regard to compliance with the requirements of the Antimonopoly Law, to issue binding orders to business entities in cases specified by the Antimonopoly Law, as well as other powers. Failure to comply with anti-monopoly requirements may result in administrative fines, criminal liability of the managers, as well as courts' invalidation of transactions that violate the Antimonopoly Law.

Health and Safety

The Group's business operations and most of its activities are conducted at industrial sites by large numbers of workers, and workplace safety issues are of significant importance to the operation of these sites. The principal law regulating the safety of employees at industrial workplaces is the Federal Law No. 116-FZ on Industrial Safety of Hazardous Industrial Objects dated 21 July 1997, as amended (the Safety Law). We are also subject to the Rules of Safety in the Oil and Gas Industry PB 08-624-03 enacted by the Order of the State Committee for Industrial and Mining Safety Supervision of Russia dated 5 June 2003 No. 56.

Oil companies that operate hazardous facilities have a wide range of obligations under the Safety Law and the Labour Code. In particular, they must arrange for trainings and personnel industrial safety appraisals, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating industrial sites. Any construction, liquidation or other activities in relation to regulated industrial sites is subject to a state industrial safety review which is conducted by Rostekhnadzor, which has broad authority in the field of industrial safety. In case of an accident, a special commission led by a representative of Rostekhnadzor conducts a technical investigation of the cause. The company operating the hazardous facility where the accident took place bears all costs of this investigation. The officials of Rostekhnadzor have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. Rostekhnadzor may impose administrative liability on persons for violation of requirements of industrial safety in accordance with the procedure established by Russian legislation as well as send to the law enforcement agencies information and materials to hold such persons criminally liable.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for lost earnings, as well as health-related damages, and in certain cases its activity may be suspended for a period of up to 90 days.

Employment and Labour

Labour matters in Russia are primarily governed by the Labour Code of the Russian Federation dated 30 December 2001, as amended (the Labour Code), various federal laws, such as the Law of the Russian Federation No. 1032-1 on Employment in the Russian Federation dated 19 April 1991, as amended, and other regulations adopted in accordance with these laws.

Employment Contracts

Generally, the employment contracts for an indefinite term are concluded with all employees. Russian labour legislation expressly limits the possibility of entering into fixed-term employment contracts. However, an employment contract may be entered into for a fixed term of up to 5 years in certain cases where labour relations may not be established for an indefinite term due to the nature of the duties or the conditions of the performance of such duties, as well as in other cases expressly identified by federal law. An employer may terminate an employment contract only on the basis of the specific grounds set out in the Labour Code.

Any termination of an employment contract by an employer that is inconsistent with the Labour Code requirements may be challenged by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees' rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for mental distress.

Work Time and Salary

The Labour Code generally sets the regular working week at 40 hours. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate. Annual paid leave under the law is 28 calendar days. Employees who work in hazardous, strenuous or severe conditions may be entitled to an additional paid vacation ranging from 7 to 36 working days. Similarly, additional benefits, such as additional pay leaves and monetary compensations, must be provided to employees working in Russia's far north and certain other Russian regions, including those where we operate.

Trade Unions

The activities of trade unions are generally governed by the Federal Law No. 10-FZ on Trade Unions, Their Rights and Guarantees of Their Activity dated 12 January 1996, as amended (the Trade Union Law). The Trade Union Law defines a trade union as a voluntary union of individuals with common industrial, professional interests that is incorporated for the purposes of representing and protecting the rights and interests of its members. As part of their activities, trade unions represent interests of employees in collective negotiations, execution and amending of collective contracts and agreements, monitor compliance with labour laws, collective contracts and other agreements, represent their members and other employees in individual and collective labour disputes with management and monitor redundancy of employees and seek action by municipal authorities to delay or suspend mass layoffs.

The trade union may apply to state authorities and labour inspectors and prosecutors to ensure that an employer does not violate Russian labour laws. Trade unions may participate in resolving collective labour disputes and have the right to organise and conduct strikes and other collective actions. Russian laws require that companies cooperate with trade unions and do not interfere with their activities.

Strikes

The Labour Code defines a strike as the temporary and voluntary refusal of workers to fulfil their work duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements for strikes to be considered legal. Participation in a legal strike may not be considered by an employer as grounds for terminating an employment contract.

GLOSSARY OF TERMS

The expressions below shall have the following meanings throughout this prospectus unless the context requires otherwise:

References to:

- ''**crude oil**'' are to oil and gas condensate
- ''**gas**'' are to non-associated gas (i.e., natural gas) and associated gas
- ''**bbl**'' means barrel
- ''**mbls**'' means thousand barrels
- ''**mmbls**'' means million barrels
- ''**boe**'' means barrels of oil equivalent
- ''**mboe**'' means thousand barrels of oil equivalent
- ''**mmboe**'' means million barrels of oil equivalent
- ''**mcf**'' means thousand cubic feet
- ''**mmcf**'' means million cubic feet
- ''**bcf**'' means billion cubic feet
- ''**mcm**'' means thousand cubic metres
- ''**mmcm**'' means million cubic metres
- ''**bcm**'' means billion cubic metres
- ''**tonne**'' means metric tonne, or 1,000 kilograms
- ''**bpd**'' means barrels per day
- ''**mbpd**'' means thousand barrels per day
- ''**kW**'' means kilowatt
- ''**MW**'' means megawatt
- ''**GW**'' means gigawatt
- ''**kWh**'' means kilowatt hour
- ''**Gcal**'' means giga calories.

''**completion**'' means the installation of permanent equipment for the production of oil or gas.

''**field**'' means an area consisting of a single or multiple reservoirs all grouped in or related to the same individual geological structure or stratigraphic condition.

''**gas available for sale**'' means the amount of gas produced excluding gas used for internal consumption.

''**natural gas**'' means petroleum that consists principally of light hydrocarbons. It can be divided into lean gas, primarily methane but often containing some ethane and smaller quantities of heavier hydrocarbons (also called sales gas) and wet gas, primarily ethane, propane and butane as well as smaller amounts of heavier hydrocarbons; wet gas is partially liquid under atmospheric pressure.

''**operator**'' means a company appointed by venture stake holders to take primary responsibility for day-to-day operations of exploration and production activities.

''**petrochemicals**'' means chemicals such as ethylene, propylene and benzene that are derived from petroleum.

''**petroleum**'' is a collective term for hydrocarbons, whether solid, liquid or gaseous. The proportion of different compounds in a petroleum find varies from discovery to discovery. If a reservoir primarily contains light hydrocarbons, it is described as a gas field. If heavier hydrocarbons predominate, it is called an oil field. An oil field may feature free gas above the oil and contain a quantity of light hydrocarbons, also called associated gas.

‘‘**reservoir**’’ means a porous and permeable underground rock formation where crude oil or gas has naturally accumulated.

‘‘**royalty**’’ is a tax on production that is equal to the royalty percentage multiplied by the gross revenue attributable to the interest of the Company.

‘‘**seismic**’’ is the use of shock waves generated by controlled explosions to ascertain the nature and contour of geological structures.

‘‘**2D seismic**’’ means seismic data that is acquired and processed to yield a two-dimensional picture of the subsurface.

‘‘**3D seismic**’’ means seismic data that is acquired and processed to yield a three-dimensional picture of the subsurface.

‘‘**thermocracking**’’ means the use of heat to reduce the size of the hydrocarbon molecular structure and convert heavy oils into lighter, value-added products.

‘‘**upstream**’’ is a term that includes exploring for oil, developing oil fields and producing oil from the oil fields. The opposite of upstream is downstream.

‘‘**vacuum distillation**’’ means distillation under less than atmospheric pressure, which lowers the boiling temperature of the liquid being distilled. This technique is used to prevent cracking or decomposition (a change in the chemical makeup of a hydrocarbon).

INDEX TO FINANCIAL INFORMATION

Audited Consolidated Financial Statements of OAO LUKOIL (prepared in accordance with U.S. GAAP) as of 31 December 2012 and 2011 and for each of the years in the three-year period ended 31 December 2012 .... F-2

Independent Auditor's Report F-3

Consolidated Balance Sheets as of 31 December 2012 and 31 December 2011 .... F-5

Consolidated Statements of Comprehensive Income for the years ended 31 December 2012 and 2011 and 2010 .... F-6

Consolidated Statements of Stockholders' Equity for the years ended 31 December 2012 and 2011 and 2010 .... F-7

Consolidated Statements of Cash Flows for the years ended 31 December 2012 and 2011 and 2010 .... F-9

Notes to Consolidated Financial Statements F-10

Audited Financial Statements of LUKOIL International Finance B.V. for the year ended 31 December 2012 .... F-49

Directors' Report for the year ended 31 December 2012 .... F-50

Balance Sheet as at 31 December 2012 .... F-53

Profit and Loss Account for the year ended 31 December 2012 .... F-54

Statement of comprehensive income for the year ended 31 December 2012 .... F-55

Cash flow statement for the year ended 31 December 2012 .... F-56

Notes to the Financial Statements for the year ended 31 December 2012 .... F-57

Independent Auditor's Report F-67

Audited Financial Statements of LUKOIL International Finance B.V. for the year ended 31 December 2011 .... F-69

Directors' Report for the year ended 31 December 2011 .... F-70

Balance Sheet as at 31 December 2011 .... F-73

Profit and Loss Account for the year ended 31 December 2011 .... F-74

Statement of comprehensive income for the year ended 31 December 2011 .... F-75

Cash flow statement for the year ended 31 December 2011 .... F-76

Notes to the Financial Statements for the year ended 31 December 2011 .... F-77

Independent Auditor's Report F-87

OAO LUKOIL

CONSOLIDATED FINANCIAL STATEMENTS

(prepared in accordance with US GAAP)

As of December 31, 2012 and 2011 and for each of the years in the three-year period ended December 31, 2012

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Auditors' Report

To the Board of Directors

OAO LUKOIL

We have audited the accompanying consolidated financial statements of OAO LUKOIL and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the consolidated statements of comprehensive income, stockholders' equity and cash flows for 2012, 2011 and 2010, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audits. We conducted our audits in accordance with Russian Federal Auditing Standards and auditing standards generally accepted in the United States of America. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Audited entity: Open Joint Stock Company "Oil company "LUKOIL"

Registered by Moscow Registration Chamber on 22 of April 1993, Registration No. 024020.

Entered in the Unified State Register of Legal Entities on 17 July 2002 by Department of Ministry of Taxes and Duties, Registration No. 1027700035769, Certificate series 77 No 007892347

11, Sretensky Boulevard, Moscow, Russia, 101000

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Included in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OAO LUKOIL and its subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for 2012, 2011 and 2010 in accordance with U.S. generally accepted accounting principles.

Other Matter

U.S. generally accepted accounting principles require that the Supplementary Information on Oil and Gas Exploration and Production Activities on pages 41 through 47 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Sloutsky E.A.

Director, power of attorney No. 49/10 dated October 1, 2010

ZAO KPMG

February 22, 2013

Moscow, Russian Federation

OAO LUKOIL
Consolidated Balance Sheets
As of December 31, 2012 and 2011
(Millions of US dollars, unless otherwise noted)

	Note	2012	2011
Assets			
Current assets			
Cash and cash equivalents	3	2,914	2,753
Short-term investments		286	157
Accounts receivable, net	5	8,667	8,921
Inventories	6	8,098	7,533
Prepaid taxes and other expenses		3,541	3,219
Other current assets		767	946
Total current assets		**24,273**	**23,529**
Investments	7	4,124	5,952
Property, plant and equipment	8, 9	66,883	56,803
Deferred income tax assets	13	569	591
Goodwill and other intangible assets	10	1,964	1,344
Other non-current assets		1,148	2,973
Total assets		**98,961**	**91,192**
Liabilities and Equity			
Current liabilities			
Accounts payable		7,263	5,995
Short-term borrowings and current portion of long-term debt	11	658	1,792
Taxes payable		2,802	2,271
Other current liabilities		1,730	1,050
Total current liabilities		**12,453**	**11,108**
Long-term debt	12, 16	5,963	7,300
Deferred income tax liabilities	13	3,651	2,790
Asset retirement obligations	8	2,195	2,120
Other long-term liabilities		511	408
Total liabilities		**24,773**	**23,726**
Equity	15		
OAO LUKOIL stockholders' equity			
Common stock		15	15
Treasury stock, at cost		(5,189)	(4,081)
Equity-linked notes		(2,500)	(980)
Additional paid-in capital		4,734	4,798
Retained earnings		76,216	67,940
Accumulated other comprehensive loss		(69)	(54)
Total OAO LUKOIL stockholders' equity		**73,207**	**67,638**
Non-controlling interests		981	(172)
Total equity		**74,188**	**67,466**
Total liabilities and equity		**98,961**	**91,192**

President of OAO LUKOIL
Alekperov V.Y.

Vice-president – Chief accountant of OAO LUKOIL
Khoba L.N.

The accompanying notes are an integral part of these consolidated financial statements.

OAO LUKOIL
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2012, 2011 and 2010
(Millions of US dollars, unless otherwise noted)

	Note	2012	2011	2010
Revenues				
Sales (including excise and export tariffs)	22	139,171	133,650	104,956
Costs and other deductions				
Operating expenses		(9,359)	(9,055)	(8,298)
Cost of purchased crude oil, gas and products		(64,148)	(59,694)	(43,250)
Transportation expenses		(6,171)	(6,121)	(5,608)
Selling, general and administrative expenses		(3,755)	(3,822)	(3,558)
Depreciation, depletion and amortization		(4,832)	(4,473)	(4,154)
Taxes other than income taxes	13	(13,666)	(12,918)	(8,978)
Excise and export tariffs		(22,836)	(22,217)	(18,878)
Exploration expenses		(364)	(532)	(336)
Gain (loss) on disposals and impairments of assets		30	(1,663)	(363)
Income from operating activities		**14,070**	**13,155**	**11,533**
Interest expense		(538)	(694)	(712)
Interest and dividend income		257	211	174
Equity share in income of affiliates	7	518	690	472
Currency translation loss		(512)	(301)	(122)
Other non-operating (expense) income		(72)	58	125
Income before income taxes		**13,723**	**13,119**	**11,470**
Current income taxes		(2,738)	(2,678)	(2,104)
Deferred income taxes		(60)	(615)	(247)
Total income tax expense	13	**(2,798)**	**(3,293)**	**(2,351)**
Net income		**10,925**	**9,826**	**9,119**
Net loss (income) attributable to non-controlling interests		79	531	(113)
Net income attributable to OAO LUKOIL		**11,004**	**10,357**	**9,006**
Earnings per share of common stock attributable to OAO LUKOIL (US dollars):	15			
Basic		14.47	13.30	10.95
Diluted		14.17	13.04	10.94
Other comprehensive income, net of tax:				
Defined benefit pension plan:				
Prior service cost arising during the period		-	22	12
Actuarial loss		(15)	(9)	(4)
Other comprehensive (loss) income		**(15)**	**13**	**8**
Comprehensive income		**10,910**	**9,839**	**9,127**
Comprehensive loss (income) attributable to non-controlling interests		79	531	(113)
Comprehensive income attributable to OAO LUKOIL		**10,989**	**10,370**	**9,014**

The accompanying notes are an integral part of these consolidated financial statements.

OAO LUKOIL
Consolidated Statements of Stockholders' Equity
For the years ended December 31, 2012, 2011 and 2010
(Millions of US dollars, unless otherwise noted)

	2012		2011		2010	
	Stockholders' equity	Comprehensive income	Stockholders' equity	Comprehensive income	Stockholders' equity	Comprehensive income
Common stock						
Balance as of January 1	15		15		15	
Balance as of December 31	**15**		**15**		**15**	
Treasury stock						
Balance as of January 1	(4,081)		(3,683)		(282)	
Stock purchased	(128)		(398)		(3,664)	
Stock disposed	-		-		263	
Equity-linked notes conversion	(980)		-		-	
Balance as of December 31	**(5,189)**		**(4,081)**		**(3,683)**	
Equity-linked notes						
Balance as of January 1	(980)		(980)		-	
Equity-linked notes purchased	(2,500)		-		(980)	
Equity-linked notes conversion	980		-		-	
Balance as of December 31	**(2,500)**		**(980)**		**(980)**	
Additional paid-in capital						
Balance as of January 1	4,798		4,700		4,699	
Premium on non-outstanding shares issued	-		-		1	
Effect of stock compensation plan	(197)		98		98	
Convertible bonds issue	-		-		113	
Changes in non-controlling interests	133		-		(141)	
Treasury stock disposed	-		-		(70)	
Balance as of December 31	**4,734**		**4,798**		**4,700**	
Retained earnings						
Balance as of January 1	67,940		59,212		51,634	
Net income	11,004	11,004	10,357	10,357	9,006	9,006
Dividends on common stock	(2,728)		(1,629)		(1,428)	
Balance as of December 31	**76,216**		**67,940**		**59,212**	
Accumulated other comprehensive loss, net of tax						
Balance as of January 1	(54)		(67)		(75)	
Pension benefits:						
Prior service cost	-	-	22	22	12	12
Actuarial loss	(15)	(15)	(9)	(9)	(4)	(4)
Balance as of December 31	**(69)**		**(54)**		**(67)**	
Total comprehensive income		10,989		10,370		9,014
Total OAO LUKOIL stockholders' equity as of December 31	**73,207**		**67,638**		**59,197**	
Non-controlling interests						
Balance as of January 1	(172)		411		388	
Net (loss) income attributable to non-controlling interests	(79)		(531)		113	
Changes in non-controlling interests	1,232		(52)		(90)	
Balance as of December 31	**981**		**(172)**		**411**	
Total equity as of December 31	**74,188**		**67,466**		**59,608**	

The accompanying notes are an integral part of these consolidated financial statements.

OAO LUKOIL
Consolidated Statements of Stockholders' Equity
For the years ended December 31, 2012, 2011 and 2010
(Millions of US dollars, unless otherwise noted)

	Share activity		
	2012	**2011**	**2010**
	(thousands of shares)	**(thousands of shares)**	**(thousands of shares)**
Common stock, issued			
Balance as of January 1	850,563	850,563	850,563
Balance as of December 31	**850,563**	**850,563**	**850,563**
Treasury stock			
Balance as of January 1	(76,101)	(69,208)	(3,836)
Purchase of treasury stock	(2,096)	(6,893)	(68,912)
Disposal of treasury stock	-	-	3,540
Equity-linked notes conversion	(17,500)	-	-
Balance as of December 31	**(95,697)**	**(76,101)**	**(69,208)**

The accompanying notes are an integral part of these consolidated financial statements.

OAO LUKOIL
Consolidated Statements of Cash Flows
For the years ended December 31, 2012, 2011 and 2010
(Millions of US dollars)

	Note	2012	2011	2010
Cash flows from operating activities				
Net income attributable to OAO LUKOIL		**11,004**	**10,357**	**9,006**
Adjustments for non-cash items:				
Depreciation, depletion and amortization		4,832	4,473	4,154
Equity share in income of affiliates, net of dividends received		102	185	316
Dry hole write-offs		127	417	225
(Gain) loss on disposals and impairments of assets		(30)	1,663	363
Deferred income taxes		60	615	247
Non-cash currency translation loss (gain)		293	(214)	(44)
Non-cash investing activities		(18)	(6)	(67)
All other items – net		153	(447)	167
Changes in operating assets and liabilities:				
Trade accounts receivable		641	(758)	(2,285)
Inventories		(126)	(1,420)	(813)
Accounts payable		1,001	885	1,508
Taxes payable		468	177	274
Other current assets and liabilities		490	(413)	490
Net cash provided by operating activities		**18,997**	**15,514**	**13,541**
Cash flows from investing activities				
Acquisition of licenses		(921)	(25)	(15)
Capital expenditures		(11,647)	(8,249)	(6,596)
Proceeds from sale of property, plant and equipment		412	156	128
Purchases of investments		(453)	(101)	(137)
Proceeds from sale of investments		252	79	126
Sale of subsidiaries and equity method affiliates, net of cash disposed		27	227	130
Acquisitions of subsidiaries and equity method affiliates, net of cash acquired		(886)	(1,100)	(932)
Net cash used in investing activities		**(13,216)**	**(9,013)**	**(7,296)**
Cash flows from financing activities				
Net movements of short-term borrowings		(32)	(633)	(213)
Proceeds from issuance of long-term debt		597	1	2,515
Principal repayments of long-term debt		(1,831)	(1,372)	(2,267)
Dividends paid on Company common stock		(2,800)	(1,714)	(1,471)
Dividends paid to non-controlling interest stockholders		(113)	(116)	(85)
Financing received from non-controlling interest stockholders		2	3	18
Purchase of Company's stock		(128)	(398)	(3,664)
Sale of Company's stock		-	-	193
Purchase of equity-linked notes		(740)	(1,760)	(980)
Purchases of non-controlling interest		(635)	(34)	(192)
Net cash used in financing activities		**(5,680)**	**(6,023)**	**(6,146)**
Effect of exchange rate changes on cash and cash equivalents		60	(93)	(5)
Net increase in cash and cash equivalents		**161**	**385**	**94**
Cash and cash equivalents at beginning of year		2,753	2,368	2,274
Cash and cash equivalents at end of year	3	**2,914**	**2,753**	**2,368**

		2012	2011	2010
Supplemental disclosures of cash flow information				
Interest paid		497	683	718
Income taxes paid		1,585	2,508	2,126

The accompanying notes are an integral part of these 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 accompanying 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

These consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

Note 2. Summary of significant accounting policies

Principles of consolidation

These 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 non-controlling 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 non-controlling 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.

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.

Note 2. Summary of significant accounting policies (continued)

Revenue

Revenues 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 profit or loss.

For certain other operations, where the US dollar is not the functional currency and the economy is not highly inflationary, 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 other comprehensive income.

In all cases, foreign currency transaction gains and losses are included in profit or loss.

As of December 31, 2012, 2011 and 2010, exchange rates of 30.37, 32.20 and 30.48 Russian rubles to the US dollar, respectively, have been used for translation purposes.

Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less.

Cash with restrictions on immediate use

Cash funds for which restrictions on immediate use exist are accounted for within other non-current assets.

Accounts receivable

Accounts 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 collected. 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 first-in, first-out cost method (FIFO). The cost of all other inventory categories is determined using the "average cost" method.

Note 2. Summary of significant accounting policies (continued)

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 profit or loss. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are reported as a separate component of other 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 profit or loss 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 profit or loss 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 profit or loss.

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 (including development dry holes and the Group’s share of operators’ expenses during the development stage of production sharing and risk service contracts), 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.

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 towards 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

Note 2. Summary of significant accounting policies (continued)

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 assessing qualitative factors and then, if it is necessary, 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.

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 the 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 profit or loss in the reporting period which includes the enactment date.

Note 2. Summary of significant accounting policies (continued)

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 profit or loss.

Interest-bearing borrowings

Interest-bearing borrowings from third parties (except convertible notes) 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 profit or loss and the carrying amounts are adjusted as amortization accumulates.

For borrowings from related parties (except convertible notes) issued with an interest rate lower than the market interest rate, the Group determines book value using market interest rate. The resulting difference is allocated to additional paid-in capital and is amortized at a constant rate over the term of the borrowings. Amortization is included in profit or loss each period and the carrying amounts are adjusted as amortization accumulates.

For convertible notes issued with a cash conversion option, the Group allocates the proceeds from issuance between a liability component and an equity component. The Group records the equity component at an amount equal to the difference between the proceeds received and the fair value of the liability component, measured as the fair value of a similar liability that does not have an associated equity component. The Group recognizes the interest cost in subsequent periods at its borrowing rate for non-convertible debt.

If borrowings are repurchased or settled before maturity, any difference between the amount paid and the carrying amount is recognized in profit or loss in the period in which the repurchase or settlement occurs.

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 periods during which the employee renders service to the Group.

The Group recognizes the funded status of the postretirement defined benefit plan in the consolidated balance sheet with corresponding adjustments to accumulated other comprehensive income. The adjustment to accumulated other comprehensive income represents the net unrecognized actuarial gains and unrecognized prior service costs. These amounts are subsequently recognized as net periodic benefit cost. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit cost in the same periods are recognized as a component of other comprehensive income. These amounts are subsequently recognized as a component of net periodic benefit cost on the same basis as the amounts recognized in accumulated other comprehensive income.

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.

Note 2. Summary of significant accounting policies (continued)

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 profit or loss. If the assessment indicates that a potentially material loss is not probable, but is reasonably possible, or is probable, but cannot be reasonably 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 operations 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 profit or loss on a net basis. Unrealized gains and losses are carried as assets or liabilities on the consolidated balance sheet.

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.

Note 2. Summary of significant accounting policies (continued)

Changes in accounting policy

In September 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-08, *"Testing Goodwill for Impairment,"* which allows an entity to use a qualitative approach to test goodwill for impairment. This ASU permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount and hence whether it is necessary to perform the two-step goodwill impairment test as required by the provisions of Topic 350 of the Codification. ASU No. 2011-08 is effective for annual and interim goodwill impairment tests performed for the fiscal years beginning after December 15, 2011. The Group adopted the requirements of ASU No. 2011-08 starting from the first quarter of 2012. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows and did not require additional disclosures.

In June 2011, the FASB issued ASU No. 2011-05, *"Presentation of comprehensive income,"* which amends Topic 220 of the Codification. This ASU increases the prominence of other comprehensive income in financial statements. Under this ASU, an entity has the option to present the components of net income and comprehensive income in either one or two statements. The ASU eliminates the option in US GAAP to present other comprehensive income in the statement of changes in equity. ASU No. 2011-05 is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011 (except those reclassification adjustments deferred by ASU No. 2011-12) and should be applied retrospectively. The Group adopted the requirements of ASU No. 2011-05 starting from the first quarter of 2012. This adoption changed the presentation of net and comprehensive incomes and stockholders' equity, but did not have any impact on the Group's results of operations, financial position or cash flows.

In May 2011, the FASB issued ASU No. 2011-04, *"Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRSs,"* which amends Topic 820 of the Codification. This ASU provides guidance for fair value measurements and disclosure requirements and clarifies the Board's intent about the application of existing fair value measurement requirements. The new standard does not extend the use of fair value but, rather, provides guidance about how fair value should be applied where it already is required or permitted under US GAAP. ASU No. 2011-04 is effective for public entities during interim and annual periods beginning after December 15, 2011 and should be applied prospectively. The Group adopted the requirements of ASU No. 2011-04 starting from the first quarter of 2012. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

In April 2011, the FASB issued ASU No. 2011-02, *"A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring,"* which amends Topic 310 of the Codification. This ASU provides additional guidance in considering whether a restructuring constitutes a troubled debt restructuring and helps creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties. ASU No. 2011-02 is effective starting from the first interim or annual period beginning on or after June 15, 2011. The Group adopted the requirements of ASU No. 2011-02 starting from the third quarter of 2011. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows and did not require additional disclosures.

Recent accounting pronouncements

In December 2011, the FASB issued ASU No. 2011-11, *"Disclosures about Offsetting Assets and Liabilities."* This ASU requires entities to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The scope includes derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. ASU No. 2011-11 is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods, and should be applied retrospectively.

Note 2. Summary of significant accounting policies (continued)

In January 2013, the FASB issued ASU No. 2013-01 *"Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities,"* which clarifies that ordinary trade receivables and receivables are not in the scope of ASU No. 2011-11. The Group is evaluating the effect of the adoption of ASU No. 2011-11 and does not expect any material impact on its results of operations, financial position or cash flows.

Note 3. Cash and cash equivalents

	As of December 31, 2012	As of December 31, 2011
Cash held in Russian rubles	571	926
Cash held in US dollars	1,816	1,224
Cash held in other currencies	403	271
Cash held in related party banks in Russian rubles	117	309
Cash held in related party banks in other currencies	7	23
Total cash and cash equivalents	**2,914**	**2,753**

Note 4. Non-cash transactions

The consolidated statement of cash flows excludes the effect of non-cash transactions, which are described in the following table:

	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Non-cash investing activity	18	6	67
Total non-cash transactions	**18**	**6**	**67**

The following table shows the effect of non-cash transactions on investing activity:

	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Net cash used in investing activity	13,216	10,773	7,296
Non-cash investing activity	18	6	67
Total investing activity	**13,234**	**10,779**	**7,363**

Note 5. Accounts receivable, net

	As of December 31, 2012	As of December 31, 2011
Trade accounts receivable (net of provisions of $247 million and $179 million as of December 31, 2012 and 2011, respectively)	6,431	7,209
Current VAT and excise recoverable	1,862	1,333
Other current accounts receivable (net of provisions of $57 million and $54 million as of December 31, 2012 and 2011, respectively)	374	379
Total accounts receivable, net	**8,667**	**8,921**

Note 6. Inventories

	As of December 31, 2012	As of December 31, 2011
Crude oil and petroleum products	6,765	6,265
Materials for extraction and drilling	387	321
Materials and supplies for refining	93	57
Other goods, materials and supplies	853	890
Total inventories	**8,098**	**7,533**

Note 7. Investments

	As of December 31, 2012	As of December 31, 2011
Investments in equity method affiliates and joint ventures	2,794	4,887
Long-term loans to equity method affiliates and joint ventures	1,312	1,001
Other long-term investments	18	64
Total long-term investments	**4,124**	**5,952**

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.

	Year ended December 31, 2012		Year ended December 31, 2011		Year ended December 31, 2010	
	Total	Group's share	Total	Group's share	Total	Group's share
Revenues	29,618	4,160	32,770	4,777	24,348	3,672
Income before income taxes	13,617	945	13,832	1,005	9,187	675
Less income taxes	(5,387)	(427)	(4,241)	(315)	(2,682)	(203)
Net income	**8,230**	**518**	**9,591**	**690**	**6,505**	**472**

	As of December 31, 2012		As of December 31, 2011	
	Total	Group's Share	Total	Group's share
Current assets	6,399	983	7,379	1,406
Property, plant and equipment	18,738	4,015	19,064	5,587
Other non-current assets	523	167	1,454	462
Total assets	25,660	5,165	27,897	7,455
Short-term debt	1,182	277	1,100	223
Other current liabilities	3,409	496	3,703	668
Long-term debt	7,717	1,256	7,461	1,069
Other non-current liabilities	1,406	342	1,581	608
Net assets	**11,946**	**2,794**	**14,052**	**4,887**

Note 7. Investments (continued)

In April 2011, the Company and OAO ANK Bashneft signed an agreement to establish a joint venture and to develop two oil fields named after R.Trebs and A.Titov, located in the Nenets Autonomous District of Russia. According to the agreement, the mineral rights for the development of the fields were re-issued by OAO ANK Bashneft in favor of its 100% subsidiary OOO Bashneft-Polus. In December 2011, the Company acquired 25.1% of OOO Bashneft-Polus for $153 million, and OOO Bashneft-Polus acquired 29 exploration wells located on these fields from a Group company for $60 million. The parties agreed to transport oil extracted from the fields via the Group's transportation infrastructure and to consider the exploitation of certain other nearby infrastructure owned by the Group. In May 2012, state authorities cancelled the order to transfer the mineral rights for the development of the fields named after R.Trebs and A.Titov to the joint venture and the license was returned to OAO ANK Bashneft. Management does not believe that this matter will have a material adverse effect on the Group's financial condition. The Company and OAO ANK Bashneft are continuing their cooperation within the project and are carrying out actions for re-issuance of the mineral rights by the state authorities in favor of OOO Bashneft-Polus.

Note 8. Property, plant and equipment and asset retirement obligations

	At cost		Net	
	As of December 31, 2012	As of December 31, 2011	As of December 31, 2012	As of December 31, 2011
Exploration and Production:				
Russia	61,123	54,269	39,092	34,415
International	9,700	8,138	7,487	6,376
Total	70,823	62,407	46,579	40,791
Refining, Marketing, Distribution and Chemicals:				
Russia	13,600	12,133	8,140	7,395
International	10,297	6,903	7,375	4,282
Total	23,897	19,036	15,515	11,677
Power generation and other:				
Russia	5,621	4,890	4,501	4,026
International	429	406	288	309
Total	6,050	5,296	4,789	4,335
Total property, plant and equipment	**100,770**	**86,739**	**66,883**	**56,803**

The Company performs a regular annual impairment test of its assets. The test is based on geological models and development programs, which are revised on a regular basis, at least annually. The fair value of tested assets is determined using the present value of the expected cash flows. Fair value measurements models used in the impairment tests were Level 3 (unobservable inputs) fair value measurements.

During the year ended December 31, 2011, the Company recognized an impairment loss on exploration and production assets of OOO Narianmarneftegaz ("NMNG") in the amount of $1,175 million, as well as an impairment loss of $175 million for assets related to the international refining, marketing and distribution segment.

The following tables set out values of property, plant and equipment measured at fair value on a nonrecurring basis in periods subsequent to their initial recognition:

	Fair value	Level 3 fair value measurements	Before-tax loss
Year ended December 31, 2011			
Property, plant and equipment	1,195	1,195	1,350

Note 8. Property, plant and equipment and asset retirement obligations (continued)

As of December 31, 2012 and 2011, the asset retirement obligations amounted to $2,200 million and $2,126 million, respectively, of which $5 million and $6 million was included in "Other current liabilities" in the consolidated balance sheets as of each balance sheet date.

During 2012 and 2011, asset retirement obligations changed as follows:

	2012	2011
Asset retirement obligations as of January 1	2,126	1,798
Accretion expense	172	158
New obligations	147	172
Changes in estimates of existing obligations	(263)	173
Spending on existing obligations	(5)	(5)
Property dispositions	(10)	(5)
Foreign currency translation and other adjustments	33	(165)
Asset retirement obligations as of December 31	**2,200**	**2,126**

The asset retirement obligations incurred during 2012 and 2011 were Level 3 (unobservable inputs) fair value measurements.

Note 9. Suspended wells

Net changes in capitalized exploratory suspended well costs during 2012, 2011 and 2010 were as follows:

	2012	2011	2010
Balance as of January 1	542	478	479
Additions pending the determination of proved reserves	25	97	156
Charged to expenses	-	-	(94)
Reclassification to proved properties	(43)	(33)	(63)
Balance as of December 31	**524**	**542**	**478**

Aging of capitalized suspended exploratory well costs were as follows:

	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
Exploratory well costs capitalized			
for a period of one year or less	21	78	148
for two years	66	144	72
for three years	133	72	89
for four years	67	82	155
for five years or more	237	166	14
for a period of greater than one year	503	464	330
Total exploratory well costs capitalized	**524**	**542**	**478**
Number of projects that have exploratory well costs capitalized for a period greater than one year	8	14	11

Note 9. Suspended wells (continued)

Aging of the exploratory wells that have been capitalized for more than one year since completion of drilling as of December 31, 2012:

Project name (field name)	Location	As of December 31, 2012	Years wells drilled
Block A	Saudi Arabia	255	2007-2010
Cape Three Points Deep Water	Ghana	92	2010
Centralno-Astrakhanskoe	European Russia	80	2007-2009
Independence	Cote d'Ivoire	66	2011
Aral	Uzbekistan	5	2010
3 projects of less than $4 million each	European Russia	5	2002-2009
Total of 8 projects		**503**	

Capitalized exploratory well costs of $255 million that are related to two fields in the "Block A" area in Saudi Arabia are represented by four wells drilled in 2007-2010. The wells were suspended pending final assessment of the operational and economic viability of the project. During 2011, to assess the required technology for the development and extraction of the tight gas reservoirs, the Group engaged an international engineering survey company to evaluate recompletion options for the wells, to prove the commercialization potential of the appraisal area and to optimize the stimulation technology for its development. These evaluations were completed in December 2011. During 2012, the Group held several meetings with the project partner, Saudi Arabian Oil Company, to confirm a common position for negotiations of amendments to the current Upstream Agreement with the government of Saudi Arabia. As a result of these meetings, the partners agreed the approach to reserves estimation, products yield as well as pricing and marketing matters and possible ways of project cost efficiency improvement. During 2013, the partners will submit the proposals on field evaluation and project implementation measures for consideration and approval by the Saudi Arabian Government with the view of taking a decision on further project development.

Capitalized exploratory well costs of $92 million that are related to block "Cape Three Points Deep Water" in Ghana are represented by one exploratory well which discovered an oil and gas condensate field and confirmed the presence of reserves within the block. One appraisal well was drilled in 2011, which was unsuccessful and written off. The Group extended the exploratory period until 2013. Additionally, according to signed contract for rig rental one exploratory well will be drilled during 2013.

Capitalized exploratory well costs of $80 million that are related to Centralno-Astrakhanskoe gas field in European part of Russia are represented by two exploratory wells drilled in 2007-2009. Seismic and geophysical works, as well as drilling of structural wells are planned on the field during 2013-2015 in order to determine the position of future exploratory wells.

Capitalized exploratory well costs of $66 million that are related to block "CI-401" in Cote d'Ivoire are represented by one exploratory well. During 2012, the Group and other participants entered into the appraisal period till June 30, 2014. According to signed contract for rig rental one appraisal well will be drilled during 2013.

The Company is evaluating the development plans for the other projects.

Note 10. Goodwill and other intangible assets

The carrying value of goodwill and other intangible assets as of December 31, 2012 and 2011 was as follows:

	As of December 31, 2012	As of December 31, 2011
Amortized intangible assets		
Software	419	389
Licenses and other assets	276	343
Goodwill	1,269	612
Total goodwill and other intangible assets	**1,964**	**1,344**

All goodwill amounts relate to the refining, marketing and distribution segment. In the third quarter of 2012, the Group obtained control over the joint venture which operates the ISAB refinery (Priolo, Italy) and recognized goodwill in the amount of $646 million (refer to Note 17. Business combinations). Additional goodwill in the amount of $11 million relates to other acquisitions.

Note 11. Short-term borrowings and current portion of long-term debt

	As of December 31, 2012	As of December 31, 2011
Short-term borrowings from third parties	113	118
Short-term borrowings from related parties	13	30
Current portion of long-term debt	532	1,644
Total short-term borrowings and current portion of long-term debt	**658**	**1,792**

Short-term borrowings from third parties are unsecured and include amounts repayable in US dollars of $54 million and $56 million, amounts repayable in Euros of $11 million and $17 million and amounts repayable in other currencies of $48 million and $45 million as of December 31, 2012 and 2011, respectively. The weighted-average interest rate on short-term borrowings from third parties was 5.75% and 4.93% per annum as of December 31, 2012 and 2011, respectively.

Note 12. Long-term debt

	As of December 31, 2012	As of December 31, 2011
Long-term loans and borrowings from third parties (including loans from banks in the amount of $885 million and $1,120 million as of December 31, 2012 and 2011, respectively)	1,287	2,652
6.375% non-convertible US dollar bonds, maturing 2014	898	897
2.625% convertible US dollar bonds, maturing 2015	1,436	1,412
6.356% non-convertible US dollar bonds, maturing 2017	500	500
7.250% non-convertible US dollar bonds, maturing 2019	596	596
6.125% non-convertible US dollar bonds, maturing 2020	998	998
6.656% non-convertible US dollar bonds, maturing 2022	500	500
13.35% Russian ruble bonds, maturing 2012	-	776
9.20% Russian ruble bonds, maturing 2012	-	311
7.40% Russian ruble bonds, maturing 2013	198	186
Capital lease obligations	82	116
Total long-term debt	6,495	8,944
Current portion of long-term debt	(532)	(1,644)
Total non-current portion of long-term debt	**5,963**	**7,300**

Note 12. Long-term debt (continued)

Long-term loans and borrowings

Long-term loans and borrowings from third parties include amounts repayable in US dollars of $1,037 million and $834 million, amounts repayable in Euros of $230 million and $284 million, amounts repayable in Russian rubles of $1 million and $1,514 million, and amounts repayable in other currencies of $19 million and $20 million as of December 31, 2012 and 2011, respectively. This debt has maturity dates from 2013 through 2023. The weighted-average interest rate on long-term loans and borrowings from third parties was 2.28% and 5.39% per annum as of December 31, 2012 and 2011, respectively. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. Approximately 33% of total long-term loans and borrowings from third parties are secured by export sales and property, plant and equipment.

A Group company has a secured loan agreement with Asian Development bank, BNP Paribas (Suisse), Credit Agricole Corporate and Investment bank, the Korea Developmet bank and Islamic Development bank with an outstanding amount of $197 million as of December 31, 2012. Borrowings under this agreement bear interest at three month LIBOR plus 3.00% per annum and have maturity dates up to 2020.

The Company has an unsecured syndicated loan agreement with the European Bank for Reconstruction and Development with an outstanding amount of $126 million as of December 31, 2012, maturing up to 2017. Borrowings under this agreement bear interest from six month LIBOR plus 0.45% to six month LIBOR plus 0.65% per annum.

A Group company has a secured loan agreement with Credit Suisse, supported by an Overseas Private Investment Corporation guarantee, with an outstanding amount of $111 million as of December 31, 2012. Borrowings under this agreement bear interest at six month LIBOR plus 4.8% per annum and have maturity dates up to 2015.

A Group company has an unsecured syndicated loan agreement with an outstanding amount of $105 million as of December 31, 2012, with maturity dates up to 2013. The loan was arranged by ABN AMRO Bank, Banco Bilbao Vizcaya Argentaria, BNP Paribas, The Bank of Tokyo-Mitsubishi UFJ, ING Bank, Mizuho Corporate Bank and WestLB. Borrowings under this agreement bear interest from three month LIBOR plus 0.85% to three month LIBOR plus 0.95% per annum.

As of December 31, 2012, the Group has a number of other loan agreements with fixed rates with a number of banks and other organizations totaling $407 million, maturing from 2013 to 2023. The weighted average interest rate under these loans was 2.76% per annum.

As of December 31, 2012, the Group has a number of other floating rate loan agreements with a number of banks and other organizations totaling $341 million, maturing from 2013 to 2020. The weighted average interest rate under these loans was 0.88% per annum.

US dollar convertible bonds

In December 2010, a Group company issued unsecured convertible bonds totaling $1.5 billion with a coupon yield of 2.625% and maturity in June 2015. The bonds were placed at face value. The bonds are convertible into LUKOIL ADRs (each representing one ordinary share of the Company) and currently have a conversion price of $71.08 per ADR. Bondholders have the right to convert the bonds into LUKOIL ADRs during the period starting from 40 days after the issue date and ending 6 dealing days before the maturity date. The issuer has the right to redeem the bonds after December 31, 2013.

Note 12. Long-term debt (continued)

US dollar non-convertible bonds

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 a resulting yield to maturity of 6.250%. The second tranche totaling $200 million was placed at a price of 102.44% of the bond's face value with a resulting yield to maturity of 5.80%. These tranches have a half year coupon period.

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 with a resulting yield to maturity of 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 with a resulting yield to maturity of 7.375%. These tranches have a half year coupon period.

In June 2007, a Group company issued non-convertible bonds totaling $1.0 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 their face value and have a half year coupon period.

Russian ruble bonds

In December 2009, the Company issued 10 million stock exchange bonds with a face value of 1,000 Russian rubles each. The bonds were placed at face value with a maturity of 1,092 days. The bonds had a 182 days' coupon period and bore interest at 9.20% per annum. In December 2012, the Company redeemed all issued bonds in accordance with the conditions of the bond issue.

In August 2009, the Company issued 25 million stock exchange bonds with a face value of 1,000 Russian rubles each. The bonds were placed at face value with a maturity of 1,092 days. The bonds had a 182 days' coupon period and bore interest at 13.35% per annum. In August 2012, the Company redeemed all issued bonds in accordance with the conditions of the bond issue.

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 their face value and have a half year coupon period. In December 2011, the Company redeemed all issued bonds with a maturity of five years in accordance with the conditions of bond issue.

Maturities of long-term debt

Annual maturities of total long-term debt during the next five years, including the portion classified as current, are $532 million in 2013, $1,521 million in 2014, $1,602 million in 2015, $117 million in 2016, $589 million in 2017 and $2,134 million thereafter.

Note 13. Taxes

The Group is taxable in a number of jurisdictions within and outside of the Russian Federation and, as a result, is subject to a variety of taxes as established under the statutory provisions of each jurisdiction.

The total cost of taxation to the Group is reported in the consolidated statements of comprehensive income as "Total income tax expense" for income taxes, as "Excise and export tariffs" for excise taxes, export tariffs and petroleum products sales taxes and as "Taxes other than income taxes" for other types of taxation. In each category taxation is made up of taxes levied at various rates in different jurisdictions.

Note 13. Taxes (continued)

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.

As of January 1, 2012 and 2011, and during 2012, 2011 and 2010, the Group did not have any unrecognized tax benefits and thus, no interest and penalties related to unrecognized tax benefits were accrued.

The Company and its Russian subsidiaries file income tax returns in Russia. With a few exceptions, income tax returns in Russia are open to examination by the Russian tax authorities for tax years beginning in 2010. Tax losses may be fully or partially used to offset taxable profits in the same company in any of the ten years following the year of loss. Until January 1, 2012, there were no provisions in the tax legislation of the Russian Federation to permit the Group to reduce taxable profits of a Group company by offsetting tax losses of another Group company against such profits.

Starting from January 1, 2012, if certain conditions are met, taxpayers are able to pay income tax as a consolidated taxpayers' group ("CTG"). This allows taxpayers to offset taxable losses generated by certain participants of a CTG against taxable profits of other participants of the CTG. Certain Group companies met the legislative requirements and paid income tax as a CTG starting from the first quarter of 2012.

Losses generated by a taxpayer before joining a CTG are not available for offset against taxable profits of other participants of the CTG. However, if a taxpayer leaves a CTG, such losses again become available for offset against future profits generated by the same taxpayer. The expiration period of the losses is extended to take account of any time spent within a CTG when the losses were unavailable for use.

Domestic and foreign components of income before income taxes were:

	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Domestic	12,458	12,561	10,569
Foreign	1,265	558	901
Income before income taxes	**13,723**	**13,119**	**11,470**

Domestic and foreign components of income taxes were:

	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Current			
Domestic	2,178	2,159	1,693
Foreign	560	519	411
Current income tax expense	2,738	2,678	2,104
Deferred			
Domestic	131	581	299
Foreign	(71)	34	(52)
Deferred income tax expense	60	615	247
Total income tax expense	**2,798**	**3,293**	**2,351**

Note 13. Taxes (continued)

The following table is a reconciliation of the amount of income tax expense that would result from applying the Russian combined statutory income tax rate of 20% applicable to the Company to income before income taxes to total income taxes:

	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Income before income taxes	13,723	13,119	11,470
Notional income tax at the Russian statutory rate	2,745	2,624	2,294
Increase (reduction) in income tax due to:			
Non-deductible items, net	227	693	266
Foreign rate differences	(60)	169	(4)
Domestic regional rate differences	(311)	(328)	(226)
Change in valuation allowance	197	135	21
Total income tax expense	**2,798**	**3,293**	**2,351**

Taxes other than income taxes were:

	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Mineral extraction tax	12,354	11,594	7,864
Social taxes and contributions	604	587	429
Property tax	535	573	518
Other taxes and contributions	173	164	167
Taxes other than income taxes	**13,666**	**12,918**	**8,978**

Deferred income taxes are included in the consolidated balance sheets as follows:

	As of December 31, 2012	As of December 31, 2011
Other current assets	153	127
Deferred income tax assets – non-current	569	591
Other current liabilities	(284)	(216)
Deferred income tax liabilities – non-current	(3,651)	(2,790)
Net deferred income tax liability	**(3,213)**	**(2,288)**

Note 13. Taxes (continued)

The following table sets out the tax effects of each type of temporary differences which give rise to deferred income tax assets and liabilities:

	As of December 31, 2012	As of December 31, 2011
Accounts receivable	4	5
Long-term liabilities	399	398
Inventories	6	13
Property, plant and equipment	344	207
Accounts payable	5	5
Operating loss carry forwards	758	646
Other	195	229
Total gross deferred income tax assets	1,711	1,503
Less valuation allowance	(750)	(553)
Deferred income tax assets	**961**	**950**
Property, plant and equipment	(3,751)	(2,870)
Accounts payable	(50)	(39)
Accounts receivable	(143)	(91)
Long-term liabilities	(39)	(38)
Inventories	(103)	(63)
Investments	(38)	(33)
Other	(50)	(104)
Deferred income tax liabilities	**(4,174)**	**(3,238)**
Net deferred income tax liability	**(3,213)**	**(2,288)**

As a result of acquisitions during 2012 the Group recognized a net deferred tax liability of $240 million.

As of December 31, 2012, retained earnings of foreign subsidiaries included $18,753 million for which deferred taxation has not been provided because remittance of the earnings has been indefinitely postponed through reinvestment and, as a result, such amounts are considered to be indefinitely invested. It is not practicable to estimate the amount of additional taxes that might be payable on such undistributed earnings.

In accordance with Topic 830, *"Foreign currency matters"* of the Codification and Topic 740, *"Income Taxes*" of the Codification deferred tax assets and liabilities are not recognized for the changes in exchange rate effects resulting from the translation of transactions and balances from the Russian ruble to the US dollar using historical exchange rates. Also, in accordance with Topic 740 of the Codification, no deferred tax assets or liabilities are recognized for the effects of the related statutory indexation of property, plant and equipment.

Based upon the levels of historical taxable income and projections for future taxable income over the periods in which the deferred income tax assets are deductible, management believes it is more likely than not that Group companies will realize the benefits of the deductible temporary differences and loss carry forwards, net of existing valuation allowances as of December 31, 2012 and 2011.

As of December 31, 2012, the Group had operating loss carry forwards of $2,490 million of which $566 million expire during 2013, $119 million expire during 2014, $1 million expire during 2015, $1 million expire during 2016, $1 million expire during 2018, $2 million expire during 2019, $2 million expire during 2020, $712 million expire during 2021, $10 million expire during 2022, $11 million expire during 2035 and $1,065 million have an indefinite carry forward.

Note 14. Pension benefits

The Group sponsors a postretirement defined benefit pension program that covers the majority of the Group's employees. One type of pension plan is based on years of service, final remuneration levels as of the end of 2003 and employee gratitude, received during the period of work. The other type of pension plan is based on the salary. These plans are solely financed by Group companies. Simultaneously employees have the right to receive pension benefits with a share-based payment by the Group (up to 4% of the annual salary of the employee). Plan assets and pensions payoffs are managed by a non-state pension fund, LUKOIL-GARANT.

The Group also provides several long-term social benefits, including lump-sum death-in-service benefit, in case of disability and upon retirement payments. Also certain payments are received by retired employees upon reaching a certain old age and invalidity.

The Company uses December 31 as the measurement date for its post employment and post retirement benefits program. An independent actuary has assessed the benefit obligations as of December 31, 2012 and 2011.

The following table provides information about the benefit obligations and plan assets as of December 31, 2012 and 2011. The benefit obligations below represent the projected benefit obligation of the pension plan.

	2012	2011
Benefit obligations		
Benefit obligations as of January 1	260	296
Effect of exchange rate changes	17	(14)
Service cost	14	15
Interest cost	19	22
Plan amendments	12	(4)
Actuarial loss	18	-
Benefits paid	(45)	(52)
Curtailment gain	(1)	(3)
Benefit obligations as of December 31	**294**	**260**
Plan assets		
Fair value of plan assets as of January 1	105	112
Effect of exchange rate changes	7	(6)
Return on plan assets	8	2
Employer contributions	45	49
Benefits paid	(45)	(52)
Fair value of plan assets as of December 31	**120**	**105**
Funded status	(174)	(155)
Amounts recognized in the consolidated balance sheet as of December 31, 2012 and 2011		
Accrued benefit liabilities included in "Other long-term liabilities"	(158)	(128)
Accrued benefit liabilities included in "Other current liabilities"	(16)	(27)

Weighted average assumptions used to determine benefit obligations as of December 31, 2012 and 2011:

	2012	2011
Discount rate	7.10%	7.80%
Rate of compensation increase	7.10%	7.30%

Note 14. Pension benefits (continued)

Weighted average assumptions used to determine net periodic benefit costs for the year ended December 31, 2012 and 2011:

	2012	**2011**
Discount rate	7.80%	7.80%
Rate of compensation increase	7.30%	7.70%
Expected rate of return on plan assets	8.63%	8.95%

Included in accumulated other comprehensive loss as of December 31, 2012 and 2011, are the following before-tax amounts that have not yet been recognized in net periodic benefit cost:

	2012	**2011**
Unamortized prior service cost	59	61
Unrecognized actuarial loss	21	4
Total costs	**80**	**65**

Amounts recognized in other comprehensive loss during the year ended December 31, 2012 and 2011:

	2012	**2011**
Additional loss arising during the period	15	9
Additional prior service cost from plan amendment	10	(4)
Re-classified prior service cost amortization	(10)	(18)
Net amount recognized for the period	**15**	**(13)**

The real returns on bonds and equities are based on what is observed in the international markets over extended periods of time. In the calculation of the expected return on assets no use is made of the historical returns LUKOIL-GARANT has achieved.

In addition to the plan assets, LUKOIL-GARANT holds assets in the form of an insurance reserve. The purpose of this insurance reserve is to satisfy pension obligations should the plan assets not be sufficient to meet pension obligations. The Group’s contributions to the pension plan are determined without considering the assets in the insurance reserve.

The plans are funded on a discretionary basis through a solidarity account, which is held in trust with LUKOIL-GARANT. LUKOIL-GARANT does not allocate separately identifiable assets to the Group or its other third party clients. All funds of plan assets and other individual pension accounts are managed as a pool of investments.

The asset allocation of the investment portfolio maintained by LUKOIL-GARANT for the Group and its clients was as follows:

Type of assets	**As of December 31, 2012**	**As of December 31, 2011**
Eurobonds	8%	4%
Russian corporate bonds	4%	28%
Bank deposits	74%	44%
Equity securities of Russian issuers	-	6%
Shares of OAO LUKOIL	-	2%
Shares in investment funds	11%	13%
Cash	1%	-
Other assets	2%	3%
	100%	100%

Note 14. Pension benefits (continued)

The investment strategy employed by LUKOIL-GARANT includes an overall goal to attain a maximum investment return, while guaranteeing the principal amount invested. The strategy is to invest with a medium-term perspective while maintaining a level of liquidity through proper allocation of investment assets. Investment policies include rules and limitations to avoid concentrations of investments.

The investment portfolio is primarily comprised of investments: bank deposits and securities with fixed yield. The securities with fixed yield include mainly high yield corporate bonds with low and medium risk ratings. Maturities range from one to three years.

Components of net periodic benefit cost were as follows:

	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Service cost	14	15	16
Interest cost	19	22	23
Less expected return on plan assets	(9)	(10)	(11)
Amortization of prior service cost	13	17	18
Curtailment gain	-	(2)	(3)
Total net periodic benefit cost	**37**	**42**	**43**

Total employer contributions for 2013 are expected to be $49 million. An amount of $16 million before-tax is included in other comprehensive income and expected to be recognized in the net periodic benefit cost in 2013.

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid:

	2013	2014	2015	2016	2017	5-year period 2013-2017	5-year period 2018-2022
Pension benefits	17	15	15	15	15	77	61
Other long-term employee benefits	32	17	17	16	17	99	75
Total expected benefits to be paid	**49**	**32**	**32**	**31**	**32**	**176**	**136**

Note 15. Stockholders' equity

Common stock

	As of December 31, 2012 (thousands of shares)	As of December 31, 2011 (thousands of shares)
Authorized and issued common stock, par value of 0.025 Russian rubles each	850,563	850,563
Treasury stock	(95,697)	(76,101)
Outstanding common stock	**754,866**	**774,462**

Dividends and dividend limitations

Profits available for distribution to common stockholders in respect of any reporting period are determined by reference to the statutory financial statements of the Company prepared in accordance with the laws of the Russian Federation and denominated in Russian rubles. Under Russian Law, dividends are limited to the net profits of the reporting year as set out in the statutory financial statements of the Company. These laws and other legislative acts governing the rights of shareholders to receive dividends are subject to various interpretations.

Note 15. Stockholders' equity (continued)

The Company's net profits were 217,807 million Russian rubles, 271,934 million Russian rubles and 139,853 million Russian rubles respectively for 2012, 2011 and 2010, pursuant to the statutory financial statements, which at the US dollar exchange rates as of December 31, 2012, 2011 and 2010, amounted to $7,171 million, $8,446 million and $4,589 million, respectively.

At the extraordinary stockholders' meeting on December 18, 2012, interim dividends were declared for 2012 in the amount of 40.00 Russian rubles per common share, which at the date of the meeting was equivalent to $1.30. Dividends payable of $12 million and $10 million are included in "Other current liabilities" in the consolidated balance sheets as of December 31, 2012 and 2011, respectively.

At the annual stockholders' meeting on June 27, 2012, dividends were declared for 2011 in the amount of 75.00 Russian rubles per common share, which at the date of the meeting was equivalent to $2.26.

At the annual stockholders' meeting on June 23, 2011, dividends were declared for 2010 in the amount of 59.00 Russian rubles per common share, which at the date of the meeting was equivalent to $2.11.

Earnings per share

The calculation of diluted earnings per share for these years was as follows:

	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Net income	11,004	10,357	9,006
Add back interest and accretion on 2.625% convertible US dollar bonds, maturing 2015 (net of tax at effective rate)	64	63	3
Total diluted net income	11,068	10,420	9,009
Weighted average number of outstanding common shares (thousands of shares)	760,588	778,964	822,359
Add back treasury shares held in respect of convertible debt (thousands of shares)	20,509	20,383	892
Weighted average number of outstanding common shares, assuming dilution (thousands of shares)	781,097	799,347	823,251
Earnings per share of common stock attributable to OAO LUKOIL (US dollars):			
Basic	14.47	13.30	10.95
Diluted	14.17	13.04	10.94

Note 16. Financial and derivative instruments

Fair value

The fair values of cash and cash equivalents (Level 1), current and long-term accounts receivable (Level 3) 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.

The fair value of long-term debt (Level 3) differs from the amount disclosed in the consolidated financial statements. The estimated fair value of long-term debt as of December 31, 2012 and 2011 was $7,035 million and $8,666 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 year ended December 31, 2012, 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.

Note 16. Financial and derivative instruments (continued)

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 hedge accounting, defined by Topic 815, *"Derivative and hedging,"* of the Codification, all gains and losses, realized or unrealized, from derivative contracts have been recognized in profit or loss.

Topic 815 of the Codification 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 a 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 December 31, 2012				As of December 31, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Commodity derivatives	-	417	-	**417**	-	575	-	**575**
Total assets	-	**417**	-	**417**	-	**575**	-	**575**
Liabilities								
Commodity derivatives	-	(459)	-	**(459)**	-	(599)	-	**(599)**
Total liabilities	**-**	**(459)**	-	**(459)**	**-**	**(599)**	-	**(599)**
Net liabilities	**-**	**(42)**	-	**(42)**	**-**	**(24)**	-	**(24)**

The derivative values above are based on an analysis of each contract as the fundamental unit of account as required by Topic 820, *"Fair Value Measurements and Disclosures,"* of the Codification. 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.

Commodity derivatives are valued using quotations provided by brokers and price index developers. These quotes are corroborated with market data and are classified as Level 2. Commodity derivatives are valued using industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and contractual prices for the underlying instruments, as well as other relevant economic measures.

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 an 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.

Note 16. Financial and derivative instruments (continued)

The fair value of commodity derivative assets and liabilities as of December 31, 2012 was:

	As of December 31, 2012
Assets	
Accounts receivable	417
Liabilities	
Accounts payable	(459)

Hedge accounting has not been used for items in the table.

As required under Topic 815 of the Codification 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 $55 million and accounts payable in the amount of $97 million.

Financial results from commodity derivatives were included in the consolidated statements of comprehensive income in “Cost of purchased crude oil, gas and products”. Realized losses were $300 million and unrealized losses were $21 million for the year ended December 31, 2012 and realized losses were $667 million and unrealized gains were $10 million for the year ended December 31, 2011.

As of December 31, 2012, 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 as of December 31, 2012 was not significant.

The impact from foreign currency derivatives during the year ended December 31, 2012 on the consolidated statements of comprehensive income was not significant. The net position of outstanding foreign currency swap contracts as of December 31, 2012 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.

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.

Note 16. Financial and derivative instruments (continued)

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's credit rating 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 December 31, 2012. The Group posted $12 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 December 31, 2012, 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 $14 million in total.

Note 17. Business combinations

In January 2012, the Group received a notice that the Board of Directors of ERG S.p.A. ("ERG") decided to exercise its option to sell to the Group a further 20% interest in the joint venture which operates the ISAB refining complex (Priolo, Italy). The notice was received in accordance with the initial agreement on the establishment of the joint venture signed in 2008. This agreement gave the second investor – ERG a step-by-step put option to sell its share in the joint venture to the Group. The transaction was approved by European regulatory authorities and was completed in September 2012. After final adjustments, its amount totaled €494 million (approximately $621 million). Accordingly, the Group's stake in the joint venture increased from 60% to 80% and in accordance with the initial agreement on the establishment of the joint venture the Group obtained control and consolidated this joint venture. The Group allocated $646 million to goodwill, $2,914 million to property, plant and equipment, $747 million to deferred tax liability, $1,024 million to current assets and $444 million to current liabilities. The value of property, plant and equipment was determined by an independent appraiser.

The acquisition-date fair value of the equity interest in ISAB held by the Group immediately before the acquisition date was $2,074 million. As a result of remeasuring the equity interest in ISAB held immediately before the business combination to fair value the Group recognized a gain of $3 million as other non-operating income. To measure the acquisition-date fair value a present value technique (level 3) was employed.

This business combination did not have a material impact on the Group's consolidated operations for the year ended December 31, 2012. Therefore, no pro-forma income statement information has been provided.

Note 18. Consolidation of Variable Interest Entity

The Group and ConocoPhillips had a joint venture NMNG which develops oil reserves in the Timan-Pechora region of the Russian Federation. The Group and ConocoPhillips had equal voting rights over the joint venture's activity and effective ownership interests of 70% and 30%, respectively. In August 2012, the Group acquired ConocoPhillips' investment in NMNG and certain assets related to NMNG for $604 million. The acquisition brought the Group's total ownership interest in NMNG to 100%.

Up until the date of acquisition of the 30% interest, the Group consolidated NMNG due to the fact that NMNG was a variable interest entity and the Group was considered to be the primary beneficiary.

Note 19. Commitments and contingencies

Capital expenditure, exploration and investment programs

Under the terms of existing exploration and production license agreements in Russia the Group has to fulfill certain obligations: oil and gas exploration, wells drilling, fields development, etc., and the Group also has commitments to reach a defined level of extraction on the fields. Management believes that the Group's approved annual capital expenditure budgets fully cover all the requirements of the described license obligations.

In 2012, a construction agreement for a heavy-residue hydrocracking complex at Group refinery LUKOIL Neftochim Bourgas AD in Bulgaria was signed. Commissioning of the complex is expected in 2015. The amount of capital commitment under this agreement is approximately $1.1 billion.

Group companies have commitments for capital expenditure contributions in the amount of $363 million related to various production sharing agreements over the next 25 years.

The Company signed a strategic agreement for the ongoing provision of construction, engineering and technical services with ZAO Globalstroy-Engineering. The volume of these services is based on the Group's capital construction program, which is re-evaluated on an annual basis. The Group estimates the amount of capital commitment under this agreement for 2013 to be approximately $232 million.

The Group signed a number of agreements for 2012-2015 for construction of offshore platforms in the Caspian region. As of December 31, 2012, the Group estimates the amount of this commitment to be approximately $1,346 million (net of advances).

The Group has a commitment to execute the capital construction program of its power generation segment and under the terms of this program power plants with a total capacity of 890 MW should be constructed. Currently the Group is approving certain amendments to the capital construction program, including its extension to the end of 2014. As of December 31, 2012, the Group estimates the amount of this commitment to be approximately $303 million.

Operating lease obligations

Group companies have commitments of $475 million primarily for the lease of vessels and petroleum distribution outlets. Operating lease expenses were $218 million, $175 million and $155 million during the years ended December 31, 2012, 2011 and 2010, respectively. Commitments for minimum rentals under these leases as of December 31, 2012 are as follows:

	As of December 31, 2012
2013	119
2014	106
2015	73
2016	48
2017	34
beyond	95

Note 19. Commitments and contingencies (continued)

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.

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 (only to the extent that they are expected to result in future economic benefits to the Group) 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, who 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 substantially more significant taxation risks in the Russian Federation and other emerging markets where Group companies operate, than those in other countries where taxation regimes have been subject to development and clarification over long periods.

Note 19. Commitments and contingencies (continued)

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.

Litigation and claims

On November 27, 2001, Archangel Diamond Corporation ("ADC"), a Canadian diamond development company, filed a lawsuit in the Denver District Court, Colorado against OAO Arkhangelskgeoldobycha ("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 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 Colorado 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 and remanded the case to the Colorado Court of Appeals to consider whether the lawsuit should have been dismissed on alternative grounds (i.e., forum non conveniens). The Colorado Court of Appeals declined to dismiss the case based on forum non conveniens and the case was remanded to the District Court. In June 2009, three creditors of ADC filed an Involuntary Bankruptcy Petition putting ADC into bankruptcy. In November 2009, after adding a claim, ADC removed the case from the District Court to the US Bankruptcy 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. On October 20, 2011, the Denver District Court dismissed all claims against the Company for lack of jurisdiction. ADC filed notice of appeal on April 17, 2012. On August 23, 2012, the Court of Appeals affirmed the Denver District Court's dismissal for lack of jurisdiction. ADC filed a Petition for Rehearing which was denied on September 20, 2012. ADC then filed a petition for Writ of Certiorari in the Colorado Supreme Court on October 18, 2012. The Company filed its Response to the Writ on November 1, 2012. The Colorado Supreme Court has not indicated yet if it will consider this case. Management does not believe that the ultimate resolution of this matter will have a material adverse effect on the Group's financial condition.

On January 6, 2012, ADC filed a lawsuit in the US District Court for the District of Colorado (federal court) reasserting almost identical claims asserted in the aforementioned lawsuit and dismissed by the Denver District Court (state court) notwithstanding ADC's appeal of the state court's decision. In Federal Court case, the Company has filed a Motion to Dismiss and discovery has been stayed pending further action. The Company plans to seek dismissal of the case and vigorously defend the matter. Management does not believe that the ultimate resolution of this matter will have a material adverse effect on the Group's 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 20. 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. Related party processing services were provided by affiliated refineries.

Below are related party transactions not disclosed elsewhere in the financial statements. Refer also to Notes 3, 7, 11, 14 and 21 for other transactions with related parties.

Sales of oil and oil products to related parties were $1,038 million, $1,298 million and $2,383 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Other sales to related parties were $50 million, $54 million and $134 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Purchases of oil and oil products from related parties were $409 million, $374 million and $521 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Purchases of processing services from related parties were $702 million, $901 million and $719 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Other purchases from related parties were $92 million, $73 million and $39 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Amounts receivable from related parties, including advances, were $496 million and $339 million as of December 31, 2012 and 2011, respectively. Amounts payable to related parties were $85 million and $115 million as of December 31, 2012 and 2011, respectively.

Note 21. Compensation plan

During the period from 2010 to 2012, the Company had a compensation plan available to certain members of management, which was based on assigned shares and provides compensation consisting of two parts.

The first part represented annual bonuses that were based on the number of assigned shares and amount of dividend per share. The payment of these bonuses were contingent on the Group meeting certain financial KPIs in each financial year. The second was based upon the Company’s common stock appreciation from 2010 to 2012, with rights vested in December 2012. The number of assigned shares for this compensation plan was approximately 17.3 million shares.

For the first part of the share plan the Group recognized a liability based on expected dividends and number of assigned shares.

The second part of the share plan originally was classified as equity settled. The grant date fair value of the plan was estimated at $295 million using the Black-Scholes-Merton option-pricing model, assuming a risk-free interest rate of 8.0% per annum, an expected dividend yield of 3.09% per annum, an 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. In December 2012, this compensation plan was amended in relation to all participants, which resulted in reclassification of the second part of the plan as a liability. As a result of this amendment the Group recorded an additional expense in the fourth quarter of 2012 in the amount of $33 million.

Note 21. Compensation plan (continued)

Related to this plan the Group recorded $182 million, $137 million and $129 million of compensation expense during the years ended December 31, 2012, 2011 and 2010 respectively, of which $98 million was initially recognized as an increase in additional paid-in capital in each year correspondingly. As a result of the plan amendments that took place in the fourth quarter of 2012 $295 million was reclassified from additional paid-in capital to liabilities. As of December 31, 2012 and 2011, $380 million and $28 million related to this plan are included in "Other current liabilities" of the consolidated balance sheets, respectively. The total recognized tax benefits related to these accruals were $37 million, $20 million and $21 million during the years ended December 31, 2012, 2011 and 2010.

In late December 2012, the Company introduced a new compensation plan to certain members of management for the period from 2013 to 2017. Its conditions are similar to the conditions of the previous compensation plan after modification. The number of assigned shares is approximately 19 million. The Group is currently finalizing the calculation of the grant date fair value of the new plan.

Note 22. Segment information

Presented below is information about the Group's operating and geographical segments for the years ended December 31, 2012, 2011 and 2010, in accordance with Topic 280, *"Segment reporting,"* of the Codification.

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 are based on the area of operations and include two segments: Russia and International.

Operating segments

2012	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	3,130	133,139	1,362	1,411	129	-	139,171
Inter-segment	43,959	1,738	307	1,557	2,926	(50,487)	-
Total sales	47,089	134,877	1,669	2,968	3,055	(50,487)	139,171
Operating expenses	5,210	3,565	568	1,867	2,299	(4,150)	9,359
Depreciation, depletion and amortization	3,061	1,371	65	248	124	(37)	4,832
Interest expense	850	691	47	73	557	(1,680)	538
Income tax expense	1,920	711	57	34	52	24	2,798
Net income (net loss)	8,326	3,639	(279)	(278)	(363)	(41)	11,004
Total assets	67,523	70,120	1,166	4,530	20,512	(64,890)	98,961
Capital expenditures	8,902	2,078	90	503	277	-	11,850

Note 22. Segment information (continued)

2011	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	3,449	126,665	1,944	1,472	120	-	133,650
Inter-segment	41,409	1,884	500	1,520	2,467	(47,780)	-
Total sales	44,858	128,549	2,444	2,992	2,587	(47,780)	133,650
Operating expenses	4,347	3,975	459	2,098	2,029	(3,853)	9,055
Depreciation, depletion and amortization	2,865	1,248	63	224	129	(56)	4,473
Interest expense	732	709	20	47	505	(1,319)	694
Income tax expense	2,106	1,060	43	(5)	10	79	3,293
Net income (net loss)	6,665	3,687	(27)	(127)	(370)	529	10,357
Total assets	60,311	62,173	1,488	4,220	21,201	(58,201)	91,192
Capital expenditures	6,629	1,354	89	196	224	-	8,492

2010	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	3,012	99,064	1,331	1,416	133	-	104,956
Inter-segment	33,511	1,182	271	1,277	1,937	(38,178)	-
Total sales	36,523	100,246	1,602	2,693	2,070	(38,178)	104,956
Operating expenses	3,965	3,771	294	1,901	1,628	(3,261)	8,298
Depreciation, depletion and amortization	2,773	1,033	40	183	126	(1)	4,154
Interest expense	806	859	26	38	405	(1,422)	712
Income tax expense	1,449	874	37	(14)	4	1	2,351
Net income (net loss)	6,139	3,330	101	(167)	(317)	(80)	9,006
Total assets	57,280	56,908	1,249	4,338	15,390	(51,148)	84,017
Capital expenditures	4,908	1,320	76	420	120	-	6,844

Geographical segments

	2012	2011	2010
Sales of crude oil within Russia	1,634	1,571	956
Export of crude oil and sales of crude oil by foreign subsidiaries	26,036	32,522	26,342
Sales of refined products within Russia	16,803	15,242	10,928
Export of refined products and sales of refined products by foreign subsidiaries	86,604	76,335	60,018
Sales of chemicals within Russia	418	914	728
Export of chemicals and sales of chemicals by foreign subsidiaries	992	1,095	642
Other sales within Russia	3,281	3,213	2,881
Other export sales and other sales by foreign subsidiaries	3,403	2,758	2,461
Total sales	**139,171**	**133,650**	**104,956**

Note 22. Segment information (continued)

2012	Russia	International	Elimination	Consolidated
Sales				
Third parties	25,370	113,801	-	139,171
Inter-segment	39,355	200	(39,555)	-
Total sales	64,725	114,001	(39,555)	139,171
Operating expenses	7,333	2,113	(87)	9,359
Depletion, depreciation and amortization	3,834	998	-	4,832
Interest expense	194	504	(160)	538
Income tax expense	2,316	489	(7)	2,798
Net income	10,238	776	(10)	11,004
Total assets	78,515	36,108	(15,662)	98,961
Capital expenditures	9,343	2,507	-	11,850

2011	Russia	International	Elimination	Consolidated
Sales				
Third parties	24,674	108,976	-	133,650
Inter-segment	39,567	143	(39,710)	-
Total sales	64,241	109,119	(39,710)	133,650
Operating expenses	6,999	2,094	(38)	9,055
Depletion, depreciation and amortization	3,692	781	-	4,473
Interest expense	338	477	(121)	694
Income tax expense	2,715	554	24	3,293
Net income	9,769	4	584	10,357
Total assets	73,150	34,384	(16,342)	91,192
Capital expenditures	6,516	1,976	-	8,492

2010	Russia	International	Elimination	Consolidated
Sales				
Third parties	17,615	87,341	-	104,956
Inter-segment	34,599	37	(34,636)	-
Total sales	52,214	87,378	(34,636)	104,956
Operating expenses	6,334	2,005	(41)	8,298
Depletion, depreciation and amortization	3,393	761	-	4,154
Interest expense	415	427	(130)	712
Income tax expense	1,993	359	(1)	2,351
Net income (net loss)	8,542	542	(78)	9,006
Total assets	74,033	30,225	(20,241)	84,017
Capital expenditures	5,333	1,511	-	6,844

The Group's international sales to third parties include sales in Switzerland of $67,057 million, $66,884 million and $53,245 million for the years ended December 31, 2012, 2011 and 2010, respectively. The Group's international sales to third parties include sales in the USA of $12,649 million, $9,496 million and $8,595 million for the years ended December 31, 2012, 2011 and 2010, respectively. These amounts are attributed to individual countries based on the jurisdiction of subsidiaries making the sale.

Note 23. Subsequent events

In accordance with the requirements of Topic 855, *"Subsequent events,"* of the Codification, 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 February 22, 2013.

This section provides unaudited supplemental information on oil and gas exploration and production activities in accordance with Topic 932, *"Disclosures About Oil and Gas Producing Activities,"* of the Codification in six separate tables:

I. Capitalized costs relating to oil and gas producing activities.
II. Costs incurred in oil and gas property acquisition, exploration, and development activities.
III. Results of operations for oil and gas producing activities.
IV. Reserve quantity information.
V. Standardized measure of discounted future net cash flows.
VI. Principal sources of changes in the standardized measure of discounted future net cash flows.

Amounts shown for equity companies represent the Group's share in its exploration and production affiliates, which are accounted for using the equity method of accounting.

I. Capitalized costs relating to oil and gas producing activities

As of December 31, 2012	International	Russia	Total consolidated companies	Group's share in equity companies
Unproved oil and gas properties	1,145	2,393	3,538	551
Proved oil and gas properties	8,555	58,408	66,963	2,436
Accumulated depreciation, depletion, and amortization	(2,213)	(21,803)	(24,016)	(838)
Net capitalized costs	7,487	38,998	46,485	2,149

As of December 31, 2011	International	Russia	Total consolidated companies	Group's share in equity companies
Unproved oil and gas properties	659	1,192	1,851	166
Proved oil and gas properties	7,479	52,330	59,809	2,315
Accumulated depreciation, depletion, and amortization	(1,762)	(19,527)	(21,289)	(718)
Net capitalized costs	6,376	33,995	40,371	1,763

As of December 31, 2010	International	Russia	Total consolidated companies	Group's share in equity companies
Unproved oil and gas properties	536	1,050	1,586	274
Proved oil and gas properties	6,578	49,914	56,492	2,111
Accumulated depreciation, depletion, and amortization	(1,490)	(18,530)	(20,020)	(597)
Net capitalized costs	5,624	32,434	38,058	1,788

II. Costs incurred in oil and gas property acquisition, exploration, and development activities

Year ended December 31, 2012	International	Russia	Total consolidated companies	Group's share in equity companies
Acquisition of properties – proved	97	-	97	-
Acquisition of properties – unproved	37	937	974	-
Exploration costs	144	525	669	16
Development costs	1,621	6,489	8,110	490
Total costs incurred	1,899	7,951	9,850	506

Year ended December 31, 2011	International	Russia	Total consolidated companies	Group's share in equity companies
Acquisition of properties – proved	-	41	41	-
Acquisition of properties – unproved	70	164	234	-
Exploration costs	507	358	865	8
Development costs	968	4,726	5,694	123
Total costs incurred	1,545	5,289	6,834	131

Year ended December 31, 2010	International	Russia	Total consolidated companies	Group's share in equity companies
Acquisition of properties – proved	113	-	113	-
Acquisition of properties – unproved	-	15	15	122
Exploration costs	199	220	419	16
Development costs	685	3,686	4,371	115
Total costs incurred	997	3,921	4,918	253

III. Results of operations for oil and gas producing activities

The Group's results of operations for oil and gas producing activities are presented below. In accordance with Topic 932 of the Codification, sales and transfers to Group companies are based on market prices. Income taxes are based on statutory rates. The results of operations exclude corporate overhead and interest costs.

Year ended December 31, 2012	International	Russia	Total consolidated companies	Group's share in equity companies
Revenue				
Sales	2,910	23,011	25,921	1,728
Transfers	-	17,165	17,165	34
Total revenues	2,910	40,176	43,086	1,762
Production costs (excluding production taxes)	(299)	(3,562)	(3,861)	(126)
Exploration expense	(159)	(205)	(364)	(6)
Depreciation, depletion, and amortization, and valuation provision	(500)	(2,544)	(3,044)	(126)
Taxes other than income taxes	(399)	(24,247)	(24,646)	(564)
Related income taxes	(428)	(1,618)	(2,046)	(423)
Total results of operations for producing activities	1,125	8,000	9,125	517

Year ended December 31, 2011	International	Russia	Total consolidated companies	Group's share in equity companies
Revenue				
Sales	2,656	25,373	28,029	1,924
Transfers	-	14,107	14,107	14
Total revenues	2,656	39,480	42,136	1,938
Production costs (excluding production taxes)	(242)	(3,529)	(3,771)	(93)
Exploration expense	(439)	(93)	(532)	(2)
Depreciation, depletion, and amortization, and valuation provision	(324)	(2,511)	(2,835)	(125)
Taxes other than income taxes	(460)	(23,817)	(24,277)	(640)
Related income taxes	(531)	(1,824)	(2,355)	(407)
Total results of operations for producing activities	660	7,706	8,366	671

Year ended December 31, 2010	International	Russia	Total consolidated companies	Group's share in equity companies
Revenue				
Sales	1,926	20,003	21,929	1,350
Transfers	-	12,395	12,395	13
Total revenues	1,926	32,398	34,324	1,363
Production costs (excluding production taxes)	(218)	(3,212)	(3,430)	(113)
Exploration expense	(240)	(96)	(336)	(2)
Depreciation, depletion, and amortization, and valuation provision	(306)	(2,504)	(2,810)	(127)
Taxes other than income taxes	(257)	(17,872)	(18,129)	(321)
Related income taxes	(314)	(1,807)	(2,121)	(275)
Total results of operations for producing activities	591	6,907	7,498	525

IV. Reserve quantity information

Proved reserves are the estimated quantities of oil and gas reserves which geological and engineering data demonstrate will be recoverable with reasonable certainty in future years from known reservoirs under existing economic and operating conditions. In accordance with Topic 932 of the Codification existing economic and operating conditions are based on the 12-months average price and the year-end costs. Proved reserves do not include additional quantities of oil and gas reserves that may result from applying secondary or tertiary recovery techniques not yet tested and determined to be economic.

Proved developed reserves are the quantities of proved reserves expected to be recovered through existing wells with existing equipment and operating methods.

Due to the inherent uncertainties and the necessarily limited nature of reservoir data, estimates of reserves are inherently imprecise, require the application of judgment and are subject to change as additional information becomes available.

Management has included within proved reserves significant quantities which the Group expects to produce after the expiry dates of certain of its current production licenses in the Russian Federation. The Subsoil Law of the Russian Federation states that, upon expiration, a license is subject to renewal at the initiative of the license holder provided that further exploration, appraisal, production or remediation activities are necessary and provided that the license holder has not violated the terms of the license. Since the law applies both to newly issued and old licenses and the Group has currently renewed more than 50% of its licenses, management believes that licenses will be renewed upon their expiration for the remainder of the economic life of each respective field.

Estimated net proved oil and gas reserves and changes thereto for the years ended December 31, 2012, 2011 and 2010, are shown in the tables set out below.

Millions of barrels	**Consolidated subsidiaries**			**Group's share in equity companies**
	International	Russia	Total	
Crude oil				
January 1, 2010	329	13,054	13,383	313
Revisions of previous estimates	(4)	(279)	(283)	(5)
Purchase of hydrocarbons in '	62	-	62	-
Extensions and discoveries	10	550	560	10
Production	(26)	(671)	(697)	(24)
December 31, 2010	371	12,654	13,025	294
Revisions of previous estimates	(12)	246	234	7
Purchase of hydrocarbons in '	-	7	7	-
Extensions and discoveries	4	515	519	1
Production	(26)	(636)	(662)	(22)
December 31, 2011	337	12,786	13,123	280
Revisions of previous estimates	(1)	67	66	(1)
Purchase of hydrocarbons in '	42	-	42	-
Extensions and discoveries	40	511	551	2
Production	(25)	(631)	(656)	(21)
Sales of reserves	(2)	(3)	(5)	-
December 31, 2012	**391**	**12,730**	**13,121**	**260**
Proved developed reserves				
December 31, 2010	207	8,401	8,608	182
December 31, 2011	197	8,397	8,594	178
December 31, 2012	**136**	**8,241**	**8,377**	**160**

The non-controlling interest share included in the above total proved reserves was 71 million barrels, 163 million barrels and 187 million barrels as of December 31, 2012, 2011 and 2010, respectively. The non-controlling interest share included in the above proved developed reserves was 43 million barrels, 96 million barrels and 132 million barrels as of December 31, 2012, 2011 and 2010, respectively. Substantially all non-controlling interests relate to the reserves in the Russian Federation.

Billions of cubic feet	Consolidated subsidiaries			Group's share in equity companies
	International	Russia	Total	
Natural gas				
January 1, 2010	6,631	15,933	22,564	286
Revisions of previous estimates	(35)	1,198	1,163	11
Extensions and discoveries	98	226	324	4
Production	(187)	(524)	(711)	(26)
December 31, 2010	6,507	16,833	23,340	275
Revisions of previous estimates	(487)	253	(234)	25
Purchase of hydrocarbons in place	-	1	1	-
Extensions and discoveries	240	309	549	1
Production	(189)	(545)	(734)	(27)
December 31, 2011	6,071	16,851	22,922	274
Revisions of previous estimates	(155)	602	447	12
Purchase of hydrocarbons in place	1	-	1	-
Extensions and discoveries	93	595	688	5
Production	(248)	(571)	(819)	(26)
Sales of reserves	(17)	-	(17)	-
December 31, 2012	**5,745**	**17,477**	**23,222**	**265**
Proved developed reserves:				
December 31, 2010	2,715	6,024	8,739	143
December 31, 2011	3,250	6,065	9,315	163
December 31, 2012	**2,505**	**6,066**	**8,571**	**156**

The non-controlling interest share included in the above total proved reserves was 23 billion cubic feet, 31 billion cubic feet and 34 billion cubic feet as of December 31, 2012, 2011 and 2010, respectively. The non-controlling interest share included in the above proved developed reserves was 14 billion cubic feet, 21 billion cubic feet and 24 billion cubic feet as of December 31, 2012, 2011 and 2010, respectively. Substantially all non-controlling interests relate to the reserves in the Russian Federation.

V. Standardized measure of discounted future net cash flows

The standardized measure of discounted future net cash flows, related to the above oil and gas reserves, is calculated in accordance with the requirements of Topic 932 of the Codification. Estimated future cash inflows from production are computed by applying the 12-months average price for oil and gas to year-end quantities of estimated net proved reserves. Adjustments in this calculation for future price changes are limited to those required by contractual arrangements in existence at the end of each reporting year. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pre-tax net cash flows, less the tax bases of related assets. Discounted future net cash flows have been calculated using a ten percent discount factor. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced.

The information provided in the tables set out below does not represent management's estimate of the Group's expected future cash flows or of the value of the Group's proved oil and gas reserves. Estimates of proved reserve quantities are imprecise and change over time as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations.

The arbitrary valuation, prescribed under Topic 932 of the Codification, requires assumptions as to the timing and amount of future development and production costs. The calculations should not be relied upon as an indication of the Group's future cash flows or of the value of its oil and gas reserves.

	International	Russia	Total consolidated companies	Group's share in equity companies
As of December 31, 2012				
Future cash inflows	58,747	619,743	678,490	24,279
Future production and development costs	(36,468)	(424,260)	(460,728)	(12,469)
Future income tax expenses	(4,156)	(34,573)	(38,729)	(2,592)
Future net cash flows	18,123	160,910	179,033	9,218
Discount for estimated timing of cash flows (10% p.a.)	(9,964)	(96,015)	(105,979)	(4,723)
Discounted future net cash flows	8,159	64,895	73,054	4,495
Non-controlling share in discounted future net cash flows	-	397	397	-

	International	Russia	Total consolidated companies	Group's share in equity companies
As of December 31, 2011				
Future cash inflows	51,665	616,290	667,955	25,773
Future production and development costs	(26,242)	(416,403)	(442,645)	(12,897)
Future income tax expenses	(6,056)	(35,768)	(41,824)	(2,896)
Future net cash flows	19,367	164,119	183,486	9,980
Discount for estimated timing of cash flows (10% p.a.)	(10,930)	(97,394)	(108,324)	(5,145)
Discounted future net cash flows	8,437	66,725	75,162	4,835
Non-controlling share in discounted future net cash flows	-	937	937	-

	International	Russia	Total consolidated companies	Group's share in equity companies
As of December 31, 2010				
Future cash inflows	40,871	432,401	473,272	18,629
Future production and development costs	(23,193)	(313,375)	(336,568)	(9,503)
Future income tax expenses	(3,843)	(19,775)	(23,618)	(2,107)
Future net cash flows	13,835	99,251	113,086	7,019
Discount for estimated timing of cash flows (10% p.a.)	(8,641)	(60,808)	(69,449)	(3,656)
Discounted future net cash flows	5,194	38,443	43,637	3,363
Non-controlling share in discounted future net cash flows	-	963	963	-

VI. Principal sources of changes in the standardized measure of discounted future net cash flows

Consolidated companies	**2012**	**2011**	**2010**
Discounted present value as at January 1	75,162	43,637	45,597
Net changes due to purchases and sales of minerals in place	256	39	(193)
Sales and transfers of oil and gas produced, net of production costs	(14,215)	(13,515)	(12,454)
Net changes in prices and production costs estimates	(8,480)	69,089	22,241
Net changes in mineral extraction taxes	627	(32,678)	(23,976)
Extensions and discoveries, less related costs	3,174	3,492	1,886
Previously estimated development cost incurred during the period	7,241	6,182	5,565
Revisions of previous quantity estimates	377	620	(433)
Net change in income taxes	1,337	(7,467)	407
Other changes	(735)	224	(141)
Accretion of discount	8,310	5,539	5,138
Discounted present value at December 31	**73,054**	**75,162**	**43,637**

Group's share in equity companies	**2012**	**2011**	**2010**
Discounted present value as at January 1	4,835	3,363	2,622
Sales and transfers of oil and gas produced, net of production costs	(1,066)	(1,203)	(927)
Net changes in prices and production costs estimates	(101)	3,820	2,296
Net changes in mineral extraction taxes	(7)	(1,720)	(985)
Extensions and discoveries, less related costs	20	8	53
Previously estimated development cost incurred during the period	88	66	120
Revisions of previous quantity estimates	(3)	179	(56)
Net change in income taxes	139	(365)	(294)
Other changes	17	267	234
Accretion of discount	573	420	300
Discounted present value at December 31	**4,495**	**4,835**	**3,363**

LUKOIL International Finance B.V.

Financial Statements

For the year ended 31 December 2012

Luna Arena
Herikerbergweg 238
1101 CM AMSTERDAM ZUIDOOST
The Netherlands

Company Number 34254022

LUKOIL International Finance B.V.

Directors' Report

for the year ended 31 December 2012

The directors present their annual report and the audited financial statements for the year ended 31 December 2012.

General information

The principal activity of the Company is to raise funds for members of the OAO LUKOIL Group through the issue of bonds or other securities. The Company has no employees. The Company's ultimate parent is OAO LUKOIL domiciled in Russia and immediate parent is LUKOIL INTERNATIONAL GmbH domiciled in Austria. The Company funds its expenses through the margin made between the interest received on its loans granted to OAO LUKOIL Group companies and interest paid to bondholders.

Business review

On 7 June 2007, the Company issued USD 1 billion of interest bearing bonds - USD 500 million due in 2017 and USD 500 million due in 2022.

On 5 November 2009, the Company issued an additional USD 1.5 billion of interest bearing bonds, in the amounts of USD 900 million due in 2014 and USD 600 million due in 2019.

On 9 November 2010, the Company issued an additional USD 1 billion of interest bearing bonds due in 2020.

On 16 December 2010, the Company issued USD 1.5 billion of interest bearing bonds convertible into shares of OAO LUKOIL maturing in June 2015.

The Company does not currently use, nor does it intend to use, additional financial instruments.

Proposed dividend and transfer to reserves

The profit of the company for the year is USD 1,312 thousand (2011: USD 2,074 thousand) and it is proposed to transfer the profit for the year to the retained earnings.

Financial risk management

Credit risk

Credit risk is the risk of financial loss of the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans to group companies. Since all significant loans are receivable from one group company, credit risk is concentrated at this counterparty.

The credit risk is considered negligible since all funding is obtained on behalf of the Group and passed on directly to one group company. Management of the Company assess and reviews risk for the group company, and does not expect that the group company will fail to meet its obligations.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach is to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meets its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The liquidity risk is considered negligible since the bonds are effectively covered by loans receivable of the same amount, and are guaranteed by the ultimate parent company.

Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The market risk is considered negligible as no significant transactions have taken place in foreign currencies, and the nominal interest rates of the loan receivables and bond payables are fixed. The Company is not affected by changes in equity prices.

Operational risk
Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards or corporate behaviour. Operational risks could arise from all of the Company's operations.

Due to the nature of the Company's operations, management is of the opinion that the operational risk is negligible.

Business environment
The economic and financial markets of the Russian Federation display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation. The financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

Capital management
The Board's policy is to maintain its capital as minimum capital. The Company is not subjected to externally imposed capital requirements.

Future outlook
The Company from time to time may consider further opportunities to raise additional funds for the OAO LUKOIL Group on the basis of, and subject to, market conditions prevailing.

Code of Corporate Conduct
The Company issued and applies a Code of Corporate Conduct of OAO LUKOIL, which regulates the most important rules of conduct for LUKOIL's company business and its employees, ethical norms for intra-corporate relations and social responsibility.

From 1 January 2012 onwards the Board of Directors should endeavour to ensure at least 30% of the Board are women. The current situation is that the Board of Directors exists only of men. Given the respected foreign nature of this company it is not expected that this 30% requirement will be met during the coming year.

Directors and directors' interests
The directors who held office during the year were as follows:
S.G. Nikitin
TMF Netherlands B.V.
R.G.A. de Schutter

The directors who held office at the end of the financial year and at signing of these accounts had no disclosable interest in the shares of the Company.

By order of the board

Amsterdam, 28 March 2013

___________________	________________________	_____________
S.G. Nikitin	TMF Netherlands B.V.	R.G.A. de Schutter

LUKOIL International Finance B.V.

Balance Sheet
as at 31 December 2012
(Before appropriation of result)

	Note	**2012** USD 000's	2011 USD 000's
Financial Fixed Assets			
Long term loans owed by group companies	*3*	**4,982,593**	4,975,274
		4,982,593	4,975,274
Current Assets			
Amounts owed by group companies	*4*	**30,550**	29,018
Cash at bank	*5*	**2,927**	4,731
Total Current Assets		**33,477**	33,749
Current Liabilities			
Interest payable	*6*	**(30,188)**	(30,210)
Income tax payable		**(194)**	(140)
Other creditors		**(35)**	(38)
Total Current Liabilities		**(30,417)**	(30,388)
Net Current Assets / (Liabilities)		**3,060**	3,361
Total Assets less Current Liabilities		**4,985,653**	4,978,635
Long Term Liabilities			
Bonds issued to third parties	*6*	**(4,974,510)**	(4,968,804)
Net Assets		**11,143**	9,831
Capital and Reserves	*7*		
Issued and paid up capital		**24**	23
Share premium		**8,063**	8,063
Currency translation reserve		**(1)**	-
Retained earnings		**1,745**	(329)
Result for the year		**1,312**	2,074
Total Capital and Reserves		**11,143**	9,831

LUKOIL International Finance B.V.

Profit and Loss Account
for the year ended 31 December 2012

	Note	**2012** USD 000's	2011 USD 000's
Financial (Expenses) / Income			
Interest income	*3*	**274,409**	275,125
Interest expense	*8*	**(272,244)**	(272,022)
Foreign exchange gain / (loss)		**(22)**	(4)
		2,143	3,099
Operating Expenses			
General and administration expenses		**(334)**	(417)
Result before taxation		**1,809**	2,682
Corporate income tax	*9*	**(497)**	(608)
Result for the year		**1,312**	2,074

LUKOIL International Finance B.V.

Statement of comprehensive income
for the year ended 31 December 2012

	Note	**2012** USD 000's	2011 USD 000's
Result for the year		**1,312**	2,074
Other comprehensive income		**-**	-
Total comprehensive income		**1,312**	2,074

LUKOIL International Finance B.V.

Cash flow statement
for the year ended 31 December 2012

	2012 USD 000's	2011 USD 000's
Cash flow from operating activities		
Result for the year	**1,312**	2,074
Adjustments for non-cash items		
Adjustment to loans receivable under effective interest method	**(7,319)**	(4,593)
Adjustment to bonds payable under effective interest method	**5,706**	5,420
	(301)	2,901
Change in operating assets		
Decrease / (increase) in loan interest receivable	**(1,532)**	1,737
Decrease / (increase) in other debtors	**-**	24
	(1,532)	1,761
Change in operating liabilities		
Increase in interest payable	**(22)**	22
Increase / (decrease) in income tax payable	**54**	16
Decrease in other creditors	**(3)**	(98)
	29	(60)
Cash flow from operating activities	**(1,804)**	4,602
Changes in cash and cash equivalents	**(1,804)**	4,602
Cash at bank at 1 January	**4,731**	129
Cash at bank at 31 December	**2,927**	4,731

1 General

LUKOIL International Finance B.V. ('the Company') is a private company with limited liability incorporated in Amsterdam, the Netherlands, on 16 August 2006. The Company's immediate parent company is LUKOIL INTERNATIONAL GmbH, which is incorporated in Vienna, Austria. The Company's ultimate parent company is OAO LUKOIL, registered in Moscow, Russia. The Company's financial statements are included in the consolidated financial statements of the ultimate parent company. The principal activity of the Company is to act as a financing company.

2 Summary of principal accounting policies

Basis of preparation

The accompanying accounts have been prepared in accordance with Book 2, Part 9 of the Netherlands Civil Code. The functional currency of the Company is the US dollar since most of the Company's assets and liabilities are denominated in US dollars. For this reason, the accounts are prepared in US dollars.

General

Unless stated otherwise, assets and liabilities are shown at nominal value.

An asset is disclosed in the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. A liability is recognised in the balance sheet when it is expected to result in an outflow from the entity of resources embodying economic benefits and the amount of the obligation can be measured with sufficient reliability. If a transaction results in a transfer of future economic benefits and or when all risks relating to assets or liabilities transfer to a third party, the asset or liability is no longer included in the balance sheet.

Income is recognised in the profit and loss account when an increase in future economic potential related to an increase in an asset or a decrease of a liability has arisen, the size of which can be measured reliably. Expenses are recognised when a decrease in the economic potential related to a decrease in an asset or an increase of a liability has arisen, the size of which can be measured with sufficient reliability. The revenue and expenses are allocated to the period to which they relate. Revenues are recognised when the company has transferred the significant risks and rewards of ownership of the goods to the buyer.

Use of estimates

The preparation of the financial statements requires the management to form opinions and to make estimates and assumptions that influence the application of principles and the reported values of assets and liabilities and of income and expenditure. Actual results may differ from these estimates. The estimates and the underlying assumptions are constantly assessed. Revisions of estimates are recognised in the period in which the estimate is revised and in future periods for which the revision has consequences.

Foreign currencies

Transactions denominated in currencies other than US dollars are recorded at rates of exchange approximating to those ruling at the dates of the transactions. Assets and liabilities denominated in such currencies are translated into US dollars using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account. The translation results arising on the Company's share capital are transferred to the currency translation reserve forming part of the Company's equity.

2 Summary of principal accounting policies (continued)

Financial instruments
Financial instruments include loans receivable with group companies, as well as bonds payable to third parties. Financial instruments are initially recognized at fair value, including directly attributable transactions costs. After initial recognition, financial instruments are carried at amortised cost using the effective interest method, less impairment losses.

Impairment
Assets with a long life should be tested for impairment in the case of changes or circumstances arising that lead to an indication that the carrying amount of the asset will not be recovered. The recoverability of assets in use is determined by comparing the carrying amount of an asset with the estimated present value of the future net cash flows which the asset is expected to generate.

If the carrying amount of an asset exceeds the estimated present value of the future cash flows, impairment is charged to the difference between the carrying amount and the recoverable amount.

Shareholders' equity
Financial instruments that are designated as equity instruments by virtue of the economic reality are presented under shareholders' equity. Payments to holders of these instruments are deducted from the shareholders' equity as part of the profit distribution.

Financial instruments that are designated as a financial liability by virtue of the economic reality are presented under liabilities. Interest, dividends, income and expenditure with respect to these financial instruments are recognised in the profit and loss as financial income or expense.

Recognition of income and expenses
Interest income and expense are determined on the basis of interest earned and charged over the relating periods, according to the accrual method of accounting. Other revenues and expenses are recorded in the period to which they relate.

Corporate income tax
Corporate income tax comprises the current and deferred corporate income tax payable and deductible for the reporting period. Corporate income tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax comprises the expected tax payable or receivable on the taxable profit or loss for the financial year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable in respect of previous years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2 Summary of principal accounting policies (continued)

Determination of fair value

A number of accounting policies and disclosures in the Group's financial statements require the determination of the fair value for both financial and non-financial assets and liabilities. For measurement and disclosure purposes, fair value is determined on the basis of the following methods. Where applicable, detailed information concerning the principles for determining fair value are included in the section that specifically relates to the relevant asset or liability.

Non-derivative financial assets

The fair value of non-derivative financial assets is only determined for disclosure purposes and is determined on the basis of the listed closing (bid) price as at reporting date.

Non-derivative financial commitments

The fair value of non-derivative financial commitments is only determined for disclosure purposes and is determined on the basis of the listed closing (bid) price as at reporting date.

Financial risk management

Credit risk

Credit risk is the risk of financial loss of the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans to group companies. Since all significant loans are receivable from one group company, credit risk is concentrated at this counterparty.

The credit risk is considered negligible since all funding is obtained on behalf of the Group and passed on directly to one group company. Management of the Company assess and reviews risk for the group company, and does not expect that the group company will fail to meet their obligations.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach is to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meets its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The liquidity risk is considered negligible since the bonds are effectively covered by loans receivable of the same amount, and are guaranteed by the ultimate parent company.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The market risk is considered negligible as no significant transactions have taken place in foreign currencies, and the nominal interest rates of the loan receivables and bond payables are fixed. The Company is not affected by changes in equity prices.

2 Summary of principal accounting policies (continued)

Operational risk
Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards or corporate behaviour. Operational risks could arise from all of the Company's operations.

Due to the nature of the Company's operations, management is of the opinion that the operational risk is negligible.

Business environment
The economic and financial markets of the Russian Federation display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation. The financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

Capital management
The Board's policy is to maintain its capital as minimum capital. The Company is not subjected to externally imposed capital requirements.

Cash flow statement
The cash flow statement is prepared using the indirect method. Due to the nature of the Company's operations being financing activities, movements in borrowings and group receivables are generally considered to be operating activities and classified as such in the cash flow statement.

3 Long term loans owed by group companies

	Nominal interest rate	Nominal Value	Effective interest rate	Amortised cost using effective interest method
		USD 000's		USD 000's
Loan to LUKOIL Finance Limited, Gibraltar maturing 2017	6.4223%	500,000	6.4223%	500,000
Loan to LUKOIL Finance Limited, Gibraltar maturing 2022	6.7223%	500,000	6.7223%	500,000
Loan to LUKOIL Finance Limited, Gibraltar maturing 2014	6.4413%	900,000	6.647%	897,058
Loan to LUKOIL Finance Limited, Gibraltar maturing 2019	7.3163%	600,000	7.520%	593,639
Loan to LUKOIL Finance Limited, Gibraltar maturing 2020	6.1881%	1,000,000	6.249%	996,413
Loan to LUKOIL Finance Limited, Gibraltar maturing 2015	2.6881%	1,500,000	2.825%	1,495,483
Long term loans owed by group companies at 31 December 2012		5,000,000		4,982,593

The loans are all unsecured and bear fixed interest rates as disclosed above.

3 Long term loans owed by group companies (continued)

The movements in the long term loans are as follows:

	31 December 2012	31 December 2011
	USD 000's	USD 000's
Balance at beginning of year	**4,975,274**	4,970,681
Effective interest on existing loans recorded at fair value as at transaction date	**7,319**	4,593
Balance at end of year	**4,982,593**	4,975,274

The effective interest is included in "Interest income" in the profit and loss account.
The interest income relating to the loans for the year ended 31 December 2012 based on the effective interest rate was USD 274,403 thousand (31 December 2011: USD 275,125 thousand).

The fair value of the loans at the end of the year is estimated as being USD 5,739,648 thousand (2011: USD 5,103,244 thousand).

4 Amounts owed by group companies

	31 December 2012	31 December 2011
	USD 000's	USD 000's
Interest due from group companies	**30,550**	29,018
Total due from group companies	**30,550**	29,018

5 Cash at bank

Cash at bank comprise bank balances which are freely available on demand to the Company.

6 Bonds issued to third parties

On 7 June 2007, the Company issued USD 500,000 thousand of redeemable bonds due 7 June 2017 ("2017 Bond"), and USD 500,000 thousand of redeemable bonds due 7 June 2022 ("2022 Bond"), (together "the 2007 Bonds") on the London Stock Exchange. The 2007 Bonds have been unconditionally guaranteed by OAO LUKOIL, the ultimate parent company.

The 2017 Bond bears interest at a rate of 6.356% per annum and the 2022 Bond bears interest at a rate of 6.656% per annum. Interest is payable semi-annually in arrears, commencing on 7 December 2007. Accrued interest outstanding on the 2007 Bonds at balance sheet date was USD 4,367 thousand (2011: USD 4,367 thousand).

On 5 November 2009, the Company issued USD 900,000 thousand of redeemable bonds due 5 November 2014 ("2014 Bond") and USD 600,000 thousand of redeemable bonds due 5 November 2019 ("2019 Bond"), (together "the 2009 Bonds") on the London Stock Exchange. The 2009 Bonds have been unconditionally guaranteed by OAO LUKOIL, the ultimate parent company.

The 2014 Bond bears interest at a rate of 6.375% per annum and the 2019 Bond bears interest at a rate of 7.25% per annum. Interest is payable semi-annually in arrears, commencing on 5 May 2010. Accrued interest outstanding on the 2009 Bonds at balance sheet date was USD 15,477 thousand (2011: USD 15,477 thousand).

6 Bonds issued to third parties (continued)

On 9 November 2010, the Company issued USD 1,000,000 thousand of redeemable bonds due 9 November 2020 (“2020 Bond”) on the London Stock Exchange. The 2020 Bond has been unconditionally guaranteed by OAO LUKOIL, the ultimate parent company.

The 2020 Bond bears a nominal interest at a rate of 6.125% per annum. Interest is payable semi-annually in arrears, commencing on 9 May 2011. Accrued interest outstanding on the 2020 Bond at balance sheet date was USD 8,726 thousand (2011: USD 8,726 thousand).

On 16 December 2010, the Company issued USD 1,500,000 thousand of convertible bonds due 16 June 2015 (“2015 Convertible Bond”) on the London Stock Exchange. The 2015 Convertible Bond has been unconditionally guaranteed by OAO LUKOIL, the ultimate parent company.

The 2015 Convertible Bond converts into American Depository Deposits (ADRs) representing ordinary shares of OAO LUKOIL. Bondholders may exercise their conversion rights and receive (at the option of the Company) ADRs (as determined in the bond issuing details), the Cash Settlement Amount (as determined in the bond issuing details) or a combination of ADRs and the Cash Settlement Amount.

The Company has entered into an agreement with a LUKOIL Group company whereby that group company will make available sufficient ADRs and/or the Cash Settlement Amount to the Company, at an agreed price, to ensure that the Company’s obligations upon conversion are met at no additional risk and as a result, no loss will be borne by the Company. All risks and rewards have therefore effectively been transferred to that LUKOIL Group company.

The 2015 Convertible Bond bears interest at a nominal rate of 2.625% per annum. Interest is payable semi-annually in arrears, commencing on 16 June 2011. Accrued interest outstanding on the 2015 Convertible Bond at balance sheet date was USD 1,618 thousand (2011: USD 1,640 thousand).

Total interest due to bondholders at the balance sheet date was USD 30,188 thousand (2011: USD 30,210 thousand).

Bond issue	Effective interest rate	**Amortised bond cost at 31 December 2012**	Amortised bond cost at 31 December 2011
		USD 000’s	USD 000’s
2017 Bond	6.440%	**(498,375)**	(498,078)
2022 Bond	6.722%	**(497,724)**	(497,560)
2014 Bond	6.641%	**(895,910)**	(893,974)
2019 Bond	7.503%	**(592,124)**	(591,294)
2020 Bond	6.193%	**(995,820)**	(995,425)
2015 Convertible Bond	2.778%	**(1,494,557)**	(1,492,473)
		(4,974,510)	(4,968,804)

6 Bonds issued to third parties (continued)

The movements in the bond liabilities are as follows:

	31 December 2012	31 December 2011
	USD 000's	USD 000's
Balance at beginning of year	**(4,968,804)**	(4,963,384)
2017 Bond effective interest	**(297)**	(279)
2022 Bond effective interest	**(164)**	(154)
2014 Bond effective interest	**(1,936)**	(1,815)
2019 Bond effective interest	**(830)**	(773)
2020 Bond effective interest	**(395)**	(371)
2015 Convertible bond effective interest	**(2,084)**	(2,028)
	(4,974,510)	(4,968,804)

The effective interest is included in "Interest expense" in the profit and loss account.

The fair values of the bonds are estimated as follows, based on the market value per the London Stock Exchange:

	31 December 2012	31 December 2011
	USD 000's	USD 000's
Bonds due 7 June 2017	**(572,480)**	(511,940)
Bonds due 7 June 2022	**(609,680)**	(504,820)
Bonds due 5 November 2014	**(970,884)**	(950,751)
Bonds due 5 November 2019	**(732,432)**	(624,216)
Bonds due 9 November 2020	**(1,156,810)**	(984,100)
Bonds due 16 June 2015	**(1,693,650)**	(1,523,910)
	(5,735,936)	(5,099,737)

7 Capital and reserves

As at the balance sheet date the Company has an authorised share capital of 90 thousand shares of EUR 1 each, of which 18 thousand shares have been issued and fully paid up (2010: 18 thousand shares of EUR 1 each). The share capital was translated using an exchange rate of EUR 1 = USD 1.3217 at 31 December 2012 (1.2950 at 31 December 2011).

The exchange difference resulting from translating the issued and paid-up capital to the reporting currency (US dollars) is reported as a currency translation reserve as part of equity.

7 Capital and reserves (continued)

Movements in capital and reserves for the year ending 31 December 2012 and 2011 are as follows:

USD 000's	Share capital	Share premium	Currency translation reserve	Retained earnings	Result for the year	Total
Balance at 1 January 2011	24	8,063	(1)	(827)	498	7,757
Appropriation of prior year result	-	-	-	498	(498)	-
Translation adjustment	(1)	-	1		-	-
Result for the year	-	-	-	-	2,074	2,074
Balance at 31 December 2011	23	8,063	-	(329)	2,074	9,831
Appropriation of prior year result	-	-	-	2,074	(2,074)	-
Translation adjustment	1	-	(1)	-	-	-
Result for the year	-	-	-		1,312	1,312
Balance at 31 December 2012	**24**	**8,063**	**(1)**	**1,745**	**1,312**	**11,143**

8 Interest expense

As detailed in Note 6, the Company issued Bonds in 2007, which bear interest at 6.356% and 6.656% per annum, as well as in 2009, which bear interest at 6.375% and 7.25% and in 2010, which bear interest at 6.125% and 2.625%. The interest expense relating to the bonds for the year ended 31 December 2012, based on the effective interest rates detailed in Note 6, was USD 272,244 thousand (2011: USD 272,022 thousand).

9 Corporate income tax

The applicable tax rate for 2012 is 20% up to Euro 200,000 of taxable income and 25% above Euro 200,000 of taxable income (2011: 20% up to Euro 200,000 of taxable income and 25% above Euro 200,000 of taxable income). Under Dutch taxation certain income and expenditure are not taxable or tax deductible ("restricted expenses"). Following an agreement with the Dutch tax authorities entered into in the year 2007, the corporate charge for 2012 is USD 497 thousand (2011: USD 608 thousand) and include the following components:

	2012 USD 000's	2011 USD 000's
Result before taxation	**1,809**	2,682
Tax at standard rate (approximately 25%)	**452**	670
Tax effect of restricted expenses	**178**	(62)
Prior year adjustments	**(133)**	-
Tax charge for current financial year	**497**	608

10 Directors

The Company has three directors (2011: three): Mr. S.G. Nikitin, TMF Netherlands B.V. and Mr. R.G.A. De Schutter. The directors received USD 8 thousand as remuneration in that capacity during the year (2011: USD 8 thousand).

11 Staff numbers and employment costs

The Company has no employees and therefore incurred no wages, salaries and related social security charges in 2012 and 2011.

12 Related parties

Transactions and balances with related parties are disclosed in notes 3 and 4. In addition there were the following related party activities:

	2012 USD 000's	2011 USD 000's
Professional services	**126**	303
	126	303

13 Auditor's fees

	2012 USD 000's	2011 USD 000's
Statutory audit of annual accounts - KPMG Accountants N.V.	**27**	25
Tax advisory services - other KPMG member firms and affiliates	**9**	29
	34	54

Amsterdam, 28 March 2013

S.G. Nikitin

TMF Netherlands B.V.

R.G.A. de Schutter

Profit appropriation

The appropriation of the result for the year shall be determined by the shareholders at the general meeting. Distributions may be made only in so far as the Company's net equity exceeds the paid up capital and legal reserves. It is proposed to take the profit for the year to the retained earnings.

Subsequent events

There were no events subsequent to balance sheet date which would have an impact on the Company's 2012 financial statements.

Independent auditor's report

The independent auditor's report is set out on the following pages.

Independent auditor’s report

To: the General Meeting of Shareholders of LUKOIL International Finance B.V.

Report on the financial statements

We have audited the accompanying financial statements 2012 of LUKOIL International Finance B.V., Amsterdam, which comprise the balance sheet as at 31 December 2012, the profit and loss account for the year then ended, the statement of comprehensive income for the year then ended, the cash flow statement for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

The Board of Directors responsibility

The Board of Directors is responsible for the preparation and fair presentation of these financial statements and for the preparation of the directors’ report, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, the Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG Accountants N.V., registered with the trade register in the Netherlands under number 33263683, is a subsidiary of KPMG Europe LLP and a member firm
of the KPMG network of independent member firms affiliated with KPMG International Cooperative ('KPMG International'), a Swiss entity.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of LUKOIL International Finance B.V.31 December 2012 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the directors' report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the directors' report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 28 March 2013

KPMG Accountants N.V.

E. Michels RA

LUKOIL International Finance B.V.

Financial Statements

For the year ended 31 December 2011

Luna Arena
Herikerbergweg 238
1101 CM AMSTERDAM ZUIDOOST
The Netherlands

Company Number 34254022

LUKOIL International Finance B.V.

Directors' Report

for the year ended 31 December 2011

The directors present their annual report and the audited financial statements for the year ended 31 December 2011.

General information

The principal activity of the Company is to raise funds for members of the OAO LUKOIL Group through the issue of bonds or other securities. The Company has no employees. The Company's ultimate parent is OAO LUKOIL domiciled in Russia and immediate parent is LUKOIL INTERNATIONAL GmbH domiciled in Austria. The Company funds its expenses through the margin made between the interest received on its loans granted to OAO LUKOIL Group companies and interest paid to bondholders.

Business review

On 7 June 2007, the Company issued USD 1 billion of interest bearing bonds - USD 500 million due in 2017 and USD 500 million due in 2022.

On 5 November 2009, the Company issued an additional USD 1.5 billion of interest bearing bonds, in the amounts of USD 900 million due in 2014 and USD 600 million due in 2019.

On 9 November 2010, the Company issued an additional $1 billion of interest bearing bonds due in 2020.

On 16 December 2010, the Company issued $1.5 billion of interest bearing bonds convertible into shares of OAO LUKOIL maturing in June 2015.

The Company does not currently use, nor does it intend to use, additional financial instruments.

Proposed dividend and transfer to reserves

The profit of the company for the year is USD 2,074 thousand (2010: USD 498 thousand) and it is proposed to transfer the profit for the year to the retained earnings.

Financial risk management

Credit risk

Credit risk is the risk of financial loss of the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans to group companies. Since all significant loans are receivable from one group company, credit risk is concentrated at this counterparty.

The credit risk is considered negligible since all funding is obtained on behalf of the Group and passed on directly to one group company. Management of the Company assess and reviews risk for the group company, and does not expect that the group company will fail to meet its obligations.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach is to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meets its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The liquidity risk is considered negligible since the bonds are effectively covered by loans receivable of the same amount, and are guaranteed by the ultimate parent company.

Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The market risk is considered negligible as no significant transactions have taken place in foreign currencies, and the nominal interest rates of the loan receivables and bond payables are fixed. The Company is not affected by changes in equity prices.

Operational risk
Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards or corporate behaviour. Operational risks could arise from all of the Company's operations.

Due to the nature of the Company's operations, management is of the opinion that the operational risk is negligible.

Business environment
The economic and financial markets of the Russian Federation display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation. The financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

Capital management
The Board's policy is to maintain its capital as minimum capital. The Company is not subjected to externally imposed capital requirements.

Future outlook
Further opportunities to raise additional funds for the OAO LUKOIL Group will be considered in future years, on the basis of, and subject to, market conditions prevailing at the time.

Directors and directors' interests
The directors who held office during the year were as follows:
S.G. Nikitin
TMF Netherlands B.V. (formerly Equity Trust Co. N.V.)
R.G.A. de Schutter

The directors who held office at the end of the financial year and at signing of these accounts had no disclosable interest in the shares of the Company.

By order of the board

Amsterdam, 19 June 2012

________________	________________	________________
S.G. Nikitin	TMF Netherlands B.V. (formerly Equity Trust Co. N.V.)	R.G.A. de Schutter

LUKOIL International Finance B.V.

Balance Sheet

as at 31 December 2011

(Before appropriation of result)

	Note	**2011** USD 000's	2010 USD 000's
Financial Fixed Assets			
Long term loans owed by group companies	*3*	**4,975,274**	4,970,681
		4,975,274	4,970,681
Current Assets			
Amounts owed by group companies	*4*	**29,018**	30,755
Other debtors		**-**	24
Cash at bank	*5*	**4,731**	129
Total Current Assets		**33,749**	30,908
Current Liabilities			
Interest payable	*6*	**(30,210)**	(30,188)
Income tax payable		**(140)**	(124)
Other creditors		**(38)**	(136)
Total Current Liabilities		**(30,388)**	(30,448)
Net Current Assets / (Liabilities)		**3,361**	460
Total Assets less Current Liabilities		**4,978,635**	4,971,141
Long Term Liabilities			
Bonds issued to third parties	*6*	**(4,968,804)**	(4,963,384)
Net Assets		**9,831**	7,757
Capital and Reserves	*7*		
Issued and paid up capital		**23**	24
Share premium		**8,063**	8,063
Currency translation reserve		**-**	(1)
Retained earnings		**(329)**	(827)
Result for the year		**2,074**	498
Total Capital and Reserves		**9,831**	7,757

LUKOIL International Finance B.V.

Profit and Loss Account

for the year ended 31 December 2011

	Note	**2011** USD 000's	2010 USD 000's
Financial (Expenses) / Income			
Interest income	*3*	**275,125**	180,308
Interest expense	*8*	**(272,022)**	(179,289)
Foreign exchange gain / (loss)		**(4)**	40
		3,099	1,059
Operating Expenses			
General and administration expenses		**(417)**	(257)
Result before taxation		**2,682**	802
Corporate income tax	*9*	**(608)**	(304)
Result for the year		**2,074**	498

LUKOIL International Finance B.V.

Statement of comprehensive income
for the year ended 31 December 2011

	Note	**2011** USD 000's	2010 USD 000's
Result for the year		**2,074**	498
Other comprehensive income		**-**	-
Total comprehensive income		**2,074**	498

LUKOIL International Finance B.V.

Cash flow statement

for the year ended 31 December 2011

	2011 USD 000's	2010 USD 000's
Cash flow from operating activities		
Result for the year	**2,074**	498
Adjustments for non-cash items		
Amortisation	**-**	-
Adjustment to loans receivable under effective interest method	**(4,593)**	(2,198)
Adjustment to bonds payable under effective interest method	**5,420**	3,468
	2,901	1,768
Change in operating assets		
Funds lent to group companies	**-**	(2,485,342)
Repayment of loan from group companies	**-**	530
Decrease / (increase) in loan interest receivable	**1,737**	(10,798)
Decrease / (increase) in other debtors	**24**	(13)
	1,761	(2,495,623)
Change in operating liabilities		
Increase in interest payable	**22**	10,344
Increase / (decrease) in income tax payable	**16**	(10)
Decrease in other creditors	**(98)**	(2,112)
Funds borrowed from third parties	**-**	2,485,363
	(60)	2,493,585
Cash flow from operating activities	**4,602**	(270)
Changes in cash and cash equivalents	**4,602**	(270)
Cash at bank at 1 January	**129**	399
Cash at bank at 31 December	**4,731**	129

1 General

LUKOIL International Finance B.V. ('the Company') is a private company with limited liability incorporated in the Netherlands on 16 August 2006. The Company's immediate parent company is LUKOIL INTERNATIONAL GmbH, which is incorporated in Austria. The Company's ultimate parent company is OAO LUKOIL, registered in Moscow, Russia. The Company's financial statements are included in the consolidated financial statements of the ultimate parent company. The principal activity of the Company is to act as a financing company. The Company changed its name from LUKOIL Europoort Holdings B.V. to LUKOIL International Finance B.V. on 17 April 2007.

2 Summary of principal accounting policies

Basis of preparation

The accompanying accounts have been prepared in accordance with Book 2, Part 9 of the Netherlands Civil Code. The functional currency of the Company is the US dollar since most of the Company's assets and liabilities are denominated in US dollars. For this reason, the accounts are prepared in US dollars.

General

Unless stated otherwise, assets and liabilities are shown at nominal value.

An asset is disclosed in the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. A liability is recognised in the balance sheet when it is expected to result in an outflow from the entity of resources embodying economic benefits and the amount of the obligation can be measured with sufficient reliability. If a transaction results in a transfer of future economic benefits and or when all risks relating to assets or liabilities transfer to a third party, the asset or liability is no longer included in the balance sheet.

Income is recognised in the profit and loss account when an increase in future economic potential related to an increase in an asset or a decrease of a liability has arisen, the size of which can be measured reliably. Expenses are recognised when a decrease in the economic potential related to a decrease in an asset or an increase of a liability has arisen, the size of which can be measured with sufficient reliability. The revenue and expenses are allocated to the period to which they relate. Revenues are recognised when the company has transferred the significant risks and rewards of ownership of the goods to the buyer.

Use of estimates

The preparation of the financial statements requires the management to form opinions and to make estimates and assumptions that influence the application of principles and the reported values of assets and liabilities and of income and expenditure. Actual results may differ from these estimates. The estimates and the underlying assumptions are constantly assessed. Revisions of estimates are recognised in the period in which the estimate is revised and in future periods for which the revision has consequences.

Foreign currencies

Transactions denominated in currencies other than US dollars are recorded at rates of exchange approximating to those ruling at the dates of the transactions. Assets and liabilities denominated in such currencies are translated into US dollars using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account. The translation results arising on the Company's share capital are transferred to the currency translation reserve forming part of the Company's equity.

2 Summary of principal accounting policies (continued)

Financial instruments
Financial instruments include loans receivable with group companies, as well as bonds payable to third parties. Financial instruments are initially recognized at fair value, including directly attributable transactions costs. After initial recognition, financial instruments are carried at amortised cost using the effective interest method, less impairment losses.

Impairment
Assets with a long life should be tested for impairment in the case of changes or circumstances arising that lead to an indication that the carrying amount of the asset will not be recovered. The recoverability of assets in use is determined by comparing the carrying amount of an asset with the estimated present value of the future net cash flows which the asset is expected to generate.

If the carrying amount of an asset exceeds the estimated present value of the future cash flows, impairment is charged to the difference between the carrying amount and the recoverable amount.

Shareholders' equity
Financial instruments that are designated as equity instruments by virtue of the economic reality are presented under shareholders' equity. Payments to holders of these instruments are deducted from the shareholders' equity as part of the profit distribution.

Financial instruments that are designated as a financial liability by virtue of the economic reality are presented under liabilities. Interest, dividends, income and expenditure with respect to these financial instruments are recognised in the profit and loss as financial income or expense.

Recognition of income and expenses
Interest income and expense are determined on the basis of interest earned and charged over the relating periods, according to the accrual method of accounting. Other revenues and expenses are recorded in the period to which they relate.

Corporate income tax
Corporate income tax comprises the current and deferred corporate income tax payable and deductible for the reporting period. Corporate income tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax comprises the expected tax payable or receivable on the taxable profit or loss for the financial year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable in respect of previous years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2 Summary of principal accounting policies (continued)

Determination of fair value

A number of accounting policies and disclosures in the Group's financial statements require the determination of the fair value for both financial and non-financial assets and liabilities. For measurement and disclosure purposes, fair value is determined on the basis of the following methods. Where applicable, detailed information concerning the principles for determining fair value are included in the section that specifically relates to the relevant asset or liability.

Non-derivative financial assets

The fair value of non-derivative financial assets is only determined for disclosure purposes and is determined on the basis of the listed closing (bid) price as at reporting date.

Non-derivative financial commitments

The fair value of non-derivative financial commitments is only determined for disclosure purposes and is determined on the basis of the listed closing (bid) price as at reporting date.

Financial risk management

Credit risk

Credit risk is the risk of financial loss of the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans to group companies. Since all significant loans are receivable from one group company, credit risk is concentrated at this counterparty.

The credit risk is considered negligible since all funding is obtained on behalf of the Group and passed on directly to one group company. Management of the Company assess and reviews risk for the group company, and does not expect that the group company will fail to meet their obligations.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach is to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meets its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The liquidity risk is considered negligible since the bonds are effectively covered by loans receivable of the same amount, and are guaranteed by the ultimate parent company.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The market risk is considered negligible as no significant transactions have taken place in foreign currencies, and the nominal interest rates of the loan receivables and bond payables are fixed. The Company is not affected by changes in equity prices.

2 Summary of principal accounting policies (continued)

Operational risk
Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards or corporate behaviour. Operational risks could arise from all of the Company's operations.

Due to the nature of the Company's operations, management is of the opinion that the operational risk is negligible.

Business environment
The economic and financial markets of the Russian Federation display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation. The financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

Capital management
The Board's policy is to maintain its capital as minimum capital. The Company is not subjected to externally imposed capital requirements.

Cash flow statement
The cash flow statement is prepared using the indirect method. Due to the nature of the Company's operations being financing activities, movements in borrowings and group receivables are generally considered to be operating activities and classified as such in the cash flow statement.

3 Long term loans owed by group companies

	Nominal interest rate	Nominal Value USD 000's	Effective interest rate	Amortised cost using effective interest method USD 000's
Loan to LUKOIL Finance Limited, Gibraltar maturing 2017	6.4223%	500,000	6.4223%	500,000
Loan to LUKOIL Finance Limited, Gibraltar maturing 2022	6.7223%	500,000	6.7223%	500,000
Loan to LUKOIL Finance Limited, Gibraltar maturing 2014	6.4413%	900,000	6.662%	894,875
Loan to LUKOIL Finance Limited, Gibraltar maturing 2019	7.3163%	600,000	7.529%	592,532
Loan to LUKOIL Finance Limited, Gibraltar maturing 2020	6.1930%	1,000,000	6.265%	995,347
Loan to LUKOIL Finance Limited, Gibraltar maturing 2015	2.6963%	1,500,000	2.848%	1,492,520
Long term loans owed by group companies at 31 December 2011		5,000,000		4,975,274

The loans are all unsecured and bear fixed interest rates as disclosed above.

3 Long term loans owed by group companies (continued)

The movements in the long term loans are as follows:

	31 December 2011	31 December 2010
	USD 000's	USD 000's
Balance at beginning of year	**4,970,681**	2,483,141
Effective interest on existing loans	**4,593**	2,062
Additional loans recorded at fair value as at transaction date	**-**	2,485,342
Effective interest on loans granted during the current year	**-**	136
Balance at end of year	**4,975,274**	4,970,681

The effective interest is included in "Interest income" in the profit and loss account.
The interest income relating to the loans for the year ended 31 December 2011 based on the effective interest rate was USD 275,125 thousand (31 December 2010: USD 180,308 thousand).

No additional interest (2010: USD 1 thousand) was earned on the short term loan due from group companies (see Note 4).

The fair value of the loans at the end of the year is estimated as being USD 5,103,244 thousand (2010: USD 5,222,874 thousand).

4 Amounts owed by group companies

	31 December 2011	31 December 2010
	USD 000's	USD 000's
Interest due from group companies	**29,018**	30,755
Total due from group companies	**29,018**	30,755

5 Cash at bank

Cash at bank comprise bank balances which are freely available on demand to the Company.

6 Bonds issued to third parties

On 7 June 2007, the Company issued USD 500,000 thousand of redeemable bonds due 7 June 2017 ("2017 Bond"), and USD 500,000 thousand of redeemable bonds due 7 June 2022 ("2022 Bond"), (together "the 2007 Bonds") on the London Stock Exchange. The 2007 Bonds have been unconditionally guaranteed by OAO LUKOIL, the ultimate parent company.

The 2017 Bond bears interest at a rate of 6.356% per annum and the 2022 Bond bears interest at a rate of 6.656% per annum. Interest is payable semi-annually in arrears, commencing on 7 December 2007. Accrued interest outstanding on the 2007 Bonds at balance sheet date was USD 4,367 thousand (2010: USD 4,367 thousand).

On 5 November 2009, the Company issued USD 900,000 thousand of redeemable bonds due 5 November 2014 ("2014 Bond") and USD 600,000 thousand of redeemable bonds due 5 November 2019 ("2019 Bond"), (together "the 2009 Bonds") on the London Stock Exchange. The 2009 Bonds have been unconditionally guaranteed by OAO LUKOIL, the ultimate parent company.

6 Bonds issued to third parties (continued)

The 2014 Bond bears interest at a rate of 6.375% per annum and the 2019 Bond bears interest at a rate of 7.25% per annum. Interest is payable semi-annually in arrears, commencing on 5 May 2010. Accrued interest outstanding on the 2009 Bonds at balance sheet date was USD 15,477 thousand (2010: USD 15,477 thousand).

On 9 November 2010, the Company issued USD 1,000,000 thousand of redeemable bonds due 9 November 2020 ("2020 Bond") on the London Stock Exchange. The 2020 Bond has been unconditionally guaranteed by OAO LUKOIL, the ultimate parent company.

The 2020 Bond bears a nominal interest at a rate of 6.125% per annum. Interest is payable semi-annually in arrears, commencing on 9 May 2011. Accrued interest outstanding on the 2020 Bond at balance sheet date was USD 8,726 thousand (2010: USD 8,726 thousand).

On 16 December 2010, the Company issued USD 1,500,000 thousand of convertible bonds due 16 June 2015 ("2015 Convertible Bond") on the London Stock Exchange. The 2015 Convertible Bond has been unconditionally guaranteed by OAO LUKOIL, the ultimate parent company.

The 2015 Convertible Bond converts into American Depository Deposits (ADRs) representing ordinary shares of OAO LUKOIL. Bondholders may exercise their conversion rights and receive (at the option of the Company) ADRs (as determined in the bond issuing details), the Cash Settlement Amount (as determined in the bond issuing details) or a combination of ADRs and the Cash Settlement Amount.

The Company has entered into an agreement with a LUKOIL Group company whereby that group company will make available sufficient ADRs and/or the Cash Settlement Amount to the Company, at an agreed price, to ensure that the Company's obligations upon conversion are met at no additional risk and as a result, no loss will be borne by the Company. All risks and rewards have therefore effectively been transferred to that LUKOIL Group company.

The 2015 Convertible Bond bears interest at a nominal rate of 2.625% per annum. Interest is payable semi-annually in arrears, commencing on 16 June 2011. Accrued interest outstanding on the 2015 Convertible Bond at balance sheet date was USD 16,640 thousand (2010: USD 1,618 thousand).

Total interest due to bondholders at the balance sheet date was USD 30,210 thousand (2010: USD 30,188 thousand).

Bond issue	Effective interest rate	**Amortised bond cost at 31 December 2011**	Amortised bond cost at 31 December 2010
		USD 000's	USD 000's
2017 Bond	6.440%	**(498,078)**	(497,799)
2022 Bond	6.722%	**(497,560)**	(497,406)
2014 Bond	6.641%	**(893,974)**	(892,159)
2019 Bond	7.503%	**(591,294)**	(590,521)
2020 Bond	6.193%	**(995,425)**	(995,054)
2015 Convertible Bond	2.778%	**(1,492,473)**	(1,490,445)
		(4,968,804)	(4,963,384)

6 Bonds issued to third parties (continued)

The movements in the bond liabilities are as follows:

	31 December 2011	31 December 2010
	USD 000's	USD 000's
Balance at beginning of year	**(4,963,384)**	(2,474,553)
2017 Bond effective interest	**(279)**	(262)
2022 Bond effective interest	**(154)**	(143)
2014 Bond effective interest	**(1,815)**	(1,954)
2019 Bond effective interest	**(773)**	(973)
Additional bonds recorded at fair value as at transaction date	**-**	(2,485,363)
2020 Bond effective interest	**(371)**	(53)
2015 Convertible bond effective interest	**(2,028)**	(83)
	(4,968,804)	(4,963,384)

The effective interest is included in "Interest expense" in the profit and loss account.

The fair values of the bonds are estimated as follows, based on the market value per the London Stock Exchange:

	31 December 2011	31 December 2010
	USD 000's	USD 000's
Bonds due 7 June 2017	**(511,940)**	(524,095)
Bonds due 7 June 2022	**(504,820)**	(509,105)
Bonds due 5 November 2014	**(950,751)**	(963,261)
Bonds due 5 November 2019	**(624,216)**	(647,946)
Bonds due 9 November 2020	**(984,100)**	(1,001,540)
Bonds due 16 June 2015	**(1,523,910)**	(1,576,335)
	(5,099,737)	(5,222,282)

7 Capital and reserves

As at the balance sheet date the Company has an authorised share capital of 90 thousand shares of EUR 1 each, of which 18 thousand shares have been issued and fully paid up (2010: 18 thousand shares of EUR 1 each). The share capital was translated using an exchange rate of EUR 1 = USD 1.2950 at 31 December 2011 (1.3253 at 31 December 2010).

The exchange difference resulting from translating the issued and paid-up capital to the reporting currency (US dollars) is reported as a currency translation reserve as part of equity.

7 Capital and reserves (continued)

Movements in capital and reserves for the year ending 31 December 2011 and 2010 are as follows:

USD 000's	*Share capital*	**Share premium**	**Currency translation reserve**	**Retained earnings**	**Result for the year**	**Total**
Balance at 1 January 2010	26	8,063	(3)	174	(1,001)	7,259
Appropriation of prior year result	-	-	-	(1,001)	1,001	-
Translation adjustment	(2)	-	2		-	-
Result for the year	-	-	-	-	498	498
Balance at 31 December 2010	24	8,063	(1)	(827)	498	7,757
Appropriation of prior year result	-	-	-	498	(498)	-
Translation adjustment	(1)	-	1	-	-	-
Result for the year	-	-	-		2,074	2,074
Balance at 31 December 2011	**23**	**8,063**	**-**	**(329)**	**2,074**	**9,831**

8 Interest expense

As detailed in Note 6, the Company issued Bonds in 2007, which bear interest at 6.356% and 6.656% per annum as well as Bonds issued in 2009, which bear interest at 6.375% and 7.25% and bonds issued in 2010 which bear interest at 6.125% and 2.625%. The interest expense relating to the bonds for the year ended 31 December 2011, based on the effective interest rate detailed in Note 6, was USD 272,022 thousand (2010: USD 179,289 thousand).

9 Corporate income tax

The applicable tax rate for 2011 is 20% up to Euro 200,000 of taxable income and 25% above Euro 200,000 of taxable income (2010: 20% up to Euro 200,000 of taxable income and 25.5% above Euro 200,000 of taxable income). Under Dutch taxation certain income and expenditure are not taxable or tax deductible ("restricted expenses"). Following an agreement with the Dutch tax authorities entered into in the year 2007, the corporate charge for 2011 is USD 608 thousand (2010: USD 304 thousand) and include the following components:

	2011 USD 000's	2010 USD 000's
Result before taxation	**2,682**	802
Tax at standard rate (approximately 25%)	**670**	194
Tax effect of restricted expenses	**(62)**	110
Tax charge for current financial year	**608**	304

LUKOIL International Finance B.V.

Notes to the Financial Statements
for the year ended 31 December 2011

10 Directors

The Company has three directors (2010: three): Mr. S.G. Nikitin, TMF Netherlands B.V. (formerly Equity Trust Co. N.V.) and Mr. R.G.A. De Schutter. The directors received USD 8 thousand as remuneration in that capacity during the year (2010: USD 8 thousand).

11 Staff numbers and employment costs

The Company has no employees and therefore incurred no wages, salaries and related social security charges in 2011 and 2010.

12 Related parties

Transactions and balances with related parties are disclosed in notes 3 and 4. In addition there were the following related party activities:

	2011 USD 000's	2010 USD 000's
Professional services	**303**	124
Co-manager convertible bond fees	**-**	3,375
	303	3,499

13 Auditor's fees

	2011 USD 000's	2010 USD 000's
Statutory audit of annual accounts - KPMG Accountants N.V.	**25**	27
Other audit engagements – KPMG Accountants N.V.	**-**	7
Other audit engagements – other KPMG firms member firms and affiliates	**-**	481
Tax advisory services - other KPMG member firms and affiliates	**29**	38
	54	553

Amsterdam, 19 June 2012

S.G. Nikitin

TMF Netherlands B.V. (formerly Equity Trust Co. N.V.)

R.G.A. de Schutter

LUKOIL International Finance B.V.

Supplementary Information

Profit appropriation

The appropriation of the result for the year shall be determined by the shareholders at the general meeting. Distributions may be made only in so far as the Company's net equity exceeds the paid up capital and legal reserves. It is proposed to take the profit for the year to the retained earnings.

Subsequent events

There were no events subsequent to balance sheet date which would have an impact on the Company's 2011 financial statements.

Independent auditor's report

The independent auditor's report is set out on the following pages.

Independent auditor's report

To: the General Meeting of Shareholders of LUKOIL International Finance B.V.

Report on the financial statements

We have audited the accompanying financial statements for the year ended 31 December 2011 of LUKOIL International Finance B.V., Amsterdam, which comprise the balance sheet as at 31 December 2011, the profit and loss account, the statement of comprehensive income and cash flow statement for the year then ended, and the notes, comprising a summary of the accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements and for the preparation of the report of the management, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

KPMG Accountants N.V., registered with the trade register in the Netherlands under number 33263683, is a subsidiary of KPMG Europe LLP and a member firm
of the KPMG network of independent member firms affiliated with KPMG International Cooperative ('KPMG International'), a Swiss entity.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements give a true and fair view of the financial position of LUKOIL International Finance B.V.31 December 2012 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the directors' report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the directors' report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 19 June 2012

KPMG Accountants N.V.

E. Michels RA

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