



# **LUKINTER FINANCE B.V.**

## **Financial Statements**

**31 December 2006**

*Atrium, Strawinskylaan 3105  
1077ZX Amsterdam  
The Netherlands*

**Company Number 33288643**



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## Director's Report *for the year ended 31 December 2006*

The director presents the annual report and the audited financial statements for the year ended 31 December 2006.

### **Principal activity**

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.

### **Business review**

On 29 November 2002, the Company issued USD 350,000,000 of convertible redeemable bonds due in 2007 ("Third Convertible Bonds"). The Bonds are convertible into Global Depository Receipts representing ordinary shares of, and with the guarantee of, OAO LUKOIL or may be redeemed for cash at a premium.

The OAO LUKOIL share price continued to rise in 2006 and during the year, USD 79,438,000 of convertible redeemable bonds were converted into Global Depository Receipts representing OAO LUKOIL's ordinary shares.

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. The Company does not currently use, nor does it intend to use, additional financial instruments.

The Company does not have any employees.

### **Future outlook**

Future conversion of convertible redeemable bonds will not affect the Company's equity or results as the OAO LUKOIL shares held by the Company are valued at the bond redemption value.

### **Proposed dividend and transfer to reserves**

The directors do not recommend the payment of a dividend. The profit of the Company for the year is USD 31,000 (2005: profit of USD 223,502) and it is proposed to transfer this profit to the accumulated surplus.

### **Directors and directors' interests**

The director who held office during the year, who has no disclosable interest in the shares of the Company was as follows:

Elena Telegina

By order of the board

E Telegina  
Director

2008

## Balance Sheet

as at 31 December 2006

(before proposed appropriation of result)

	Note	2006 USD	2005 USD
<b>Fixed assets</b>			
Financial fixed assets	4	-	83,179,000
<b>Current assets</b>			
Financial fixed assets	4	3,741,000	-
Amounts owed by OAO LUKOIL	5	807,125	-
Amounts owed by LUKOIL Group companies		9,000,000	12,173,581
Amounts recoverable through Guarantee	3	20,801,883	17,178,617
Other receivables		-	10,155
Prepayments		-	96,244
Interest receivable from Group companies		13,643	-
		<u>34,363,651</u>	<u>29,458,597</u>
Cash at bank	6	533,459	563,310
<b>Total current assets</b>		<b>34,897,110</b>	<b>30,021,907</b>
<b>Current liabilities</b>			
Convertible bond	7	3,741,000	-
Interest due to bond holders	7	10,912	242,580
Creditors and accrued expenses		114,809	136,015
		<u>3,866,721</u>	<u>378,595</u>
<b>Total current liabilities</b>		<b>3,866,721</b>	<b>378,595</b>
<b>Working capital</b>		<b>31,030,389</b>	<b>29,643,312</b>
<b>Total assets before long-term liabilities</b>		<b>31,030,389</b>	<b>112,822,312</b>
<b>Long-term liabilities</b>			
Loan from LUKOIL Group company	8	27,768,485	26,412,408
Convertible bond	7	-	83,179,000
		<u>27,768,485</u>	<u>109,591,408</u>
<b>Total long-term liabilities</b>		<b>27,768,485</b>	<b>109,591,408</b>
<b>Net assets</b>		<b>3,261,904</b>	<b>3,230,904</b>
<b>Represented by:</b>			
<b>Capital and reserves</b>	9		
Share capital		23,966	21,500
Translation reserve		(1,744)	722
Accumulated surplus		3,208,682	2,985,180
Result of current year		31,000	223,502
		<u>3,261,904</u>	<u>3,230,904</u>
<b>Total capital and reserves</b>		<b>3,261,904</b>	<b>3,230,904</b>

# LUKINTER FINANCE B.V.



## Profit and Loss Account for the year ended 31 December 2006

	Note	2006 USD	2005 USD
<b>Financial income / (expense)</b>			
<i>Interest income / (expense)</i>			
Interest income		524,145	325,967
Interest to bondholders		(1,680,347)	(11,380,807)
Interest to LUKOIL companies		(1,356,076)	(915,035)
		<u>(2,512,278)</u>	<u>(11,969,875)</u>
<i>Other financial income</i>			
Dividend income		2,783,887	14,069,487
Other income	10	<u>1,158,705</u>	<u>292,344</u>
<b>Net financial income</b>		<b>1,430,314</b>	<b>2,391,956</b>
<b>Operating expenses</b>			
General and administrative expenses		(1,383,746)	(2,162,751)
Result before corporation income tax		46,568	229,205
Corporate income tax	11	(15,568)	(5,703)
<b>Result after taxation</b>		<u><b>31,000</b></u>	<u><b>223,502</b></u>



## Notes (forming part of the financial statements)

### 1 Group affiliation and principal activity

The Company is a private company with limited liability, established in Amsterdam on 22 January 1997. 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's ultimate parent is OAO LUKOIL, Moscow.

The principle activity of the Company is to raise funds for members of the OAO Lukoil Group through the issue of bonds or other securities.

### 2 Summary of principal accounting policies

#### ***Basis of preparation***

The accompanying accounts have been prepared in accordance with the provisions of Part 9, Book 2 of the Dutch Civil Code contemplating continuation of the Company as a going concern. The functional currency of the Company is the US dollar. For this reason, the accounts are prepared in US dollars.

Since the Company qualifies as a small company under the Dutch Civil Code, it has availed itself of the exemptions, allowed under Article 396.6 and has omitted a director's report and information with respect to board and supervisory board remuneration.

#### ***Foreign currencies***

Transactions denominated in currencies other than US dollars are recorded at rates of exchange approximating those ruling at the dates of the transactions. Monetary 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.

#### ***Securities***

Securities, comprising OAO LUKOIL shares held to satisfy the potential bond conversion requirements, are valued at the lower of the related bond redemption value and market value at the year end.

#### ***Bank deposits***

Deposits placed with banking institutions are stated at their nominal value.

#### ***Loans payable***

Loans payable are stated at their nominal value.

#### ***Other assets and liabilities***

Unless otherwise indicated, assets and liabilities are stated at face value.

#### ***Dividend income***

The Company earns and recognises dividend income on the shares it holds as and when these are declared.

## Notes

(forming part of the financial statements)

### 3 OAO LUKOIL Guarantee

Under the terms of the convertible redeemable bonds ("Third Convertible Bond"), OAO LUKOIL has issued an unlimited guarantee ("the Guarantee") which can be used by the Company to ensure it has sufficient funds to meet all its obligations to Bondholders. The Company has calculated that as at 31 December 2006 the amount required to be received from OAO LUKOIL under the Guarantee to ensure it can meet its obligations was USD 20,801,883 (2005: USD 17,178,617).

### 4 Financial fixed assets

	2006 USD	2005 USD
Equity investments in OAO LUKOIL valued at bond redemption value	3,741,000	83,179,000
	<b>3,741,000</b>	<b>83,179,000</b>

The market value of the OAO LUKOIL shares, held by the Company in order to satisfy the potential conversion of the Third Bond, at 31 December 2006, exceeded the cost of the Third Convertible Bond. The valuation of the shares held for conversion of the Third Convertible Bond has been capped to the redemption value of the Third Convertible Bond.

The OAO Lukoil shares are expected to be redeemed in November 2007. As a result, the balance for the 2006 year of USD 3,741,000 has been reclassified to "Current assets".

A summary of movements during 2006 of the Company's portfolio of ordinary shares in OAO LUKOIL, each representing 25% of one Global Depository Receipt (GDR), is as follows:

	Number of equivalent ordinary shares held	Unrestricted actual market value, USD	Bond redemption value, USD
<b>Total 1 January 2006</b>	4,029,993	239,784,583	83,179,000
<b>Less: Bonds for Shares conversions during 2006:</b>	(3,876,028)	(285,779,544)	(80,001,217)
<b>Plus: Additional shares acquired to meet shortfall</b>	29,327	2,575,968	598,564
<b>Less: Write down of shares to bond redemption value at 31 December 2006</b>	-	-	(35,347)
<b>Unrealised gain on unrestricted market value</b>	-	59,539,524	-
<b>Total 31 December 2006</b>	183,292	16,120,531	3,741,000

\* This is rounded to two decimal places.

Although the market value of OAO LUKOIL shares at 31 December 2006 was USD 87.95 per ordinary share (31 December 2005 USD 59.50), the carrying book was restricted to USD



## Notes

*(forming part of the financial statements)*

20.41(2005: USD 20.64) per share, in order to match the value of the shares to the Bond redemption value. The change in redemption value is due to the declaration of the dividends by OAO LUKOIL's in excess of the threshold for revenue distributions as determined in the Terms and Conditions of the Bonds. A re-calculation of the shares required on conversion of the Bonds resulted in a shortfall of 29,327 OAO LUKOIL shares. The Company acquired these shares at a cost of USD 2,464,560 to ensure the Bonds are fully covered in case of conversion.

### **5 Amounts owed by OAO LUKOIL**

Amounts owed by OAO LUKOIL, represent dividends receivable on the OAO LUKOIL Global Depository Receipts held by the Company. The dividends were declared and payable in 2006 and were fully received in January 2007.

### **6 Cash at bank**

Cash at banks comprises a total balance available on demand of USD 360,494 (2005: USD 333,142) held at third party banks as at the balance sheet date. An additional USD 172,965 (2005: USD 230,168) relates to amounts held in cash with SLB Commercial Bank, a LUKOIL Group company. All balances are available on demand.

### **7 Convertible bond**

On 29 November 2002, the Company issued USD 350,000,000 of convertible redeemable bonds due November 2007, convertible into Global Depository Receipts (GDR's) representing ordinary shares of and with the guarantee of OAO LUKOIL (the "Third Convertible Bond").

During the year certain bondholders decided to convert USD 79,438,000 (2005: USD 266,821,000) of Third Convertible Bonds into OAO LUKOIL shares as described in Note 4.

The balance of the Third Convertible Bonds remaining at 31 December 2006 was USD 3,741,000.

Third Convertible Bonds bear interest at a rate of 3.5% per annum, and may be redeemed in cash at a premium of 20.53%, or converted to GDRs. Interest is payable semi-annually in arrears, commencing on 29 May 2003.

At the balance sheet date, accrued interest on the Third Convertible Bonds was USD 10,912 (2005: USD 242,580).

### **8 Loan from LUKOIL Group company**

The Company has a long term loan of USD 25,000,000 with USD 2,768,485 accrued interest due, totalling USD 27,768,485 at 31 December 2006 (2005: 25,000,000 loan with USD 1,412,408 accrued interest) from Power Trade Limited (part of OAO LUKOIL Group undertakings) with interest due on this loan at LIBOR plus 0.5%. The loan is unsecured with the principal and accrued interest being repayable on 31 December 2008.



## Notes (forming part of the financial statements)

### 9 Capital and Reserves

The authorised share capital of the Company comprises 200 shares of NLG 1,000 each, amounting to NLG 200,000, equivalent to 200 shares of EUR 453.78 totalling EUR 90,756 as required under section 1:178c of the Dutch Civil Code. As at 31 December 2006 and 31 December 2005, 40 shares were issued and fully paid-up, amounting to NLG 40,000 (EUR 18,152). This has been converted to USD at the year-end rate, with the resulting difference transferred to the translation reserve.

Movements in capital and reserves for the 2006 year are as follows:

	Share capital	Translation reserve	Accumulated surplus	Result for the year	Total
Balance 1 January 2006	21,500	722	2,985,180	223,502	3,230,904
Appropriation of 2006 result	-	-	223,502	(223,502)	-
Translation adjustments	2,466	(2,466)	-	-	-
Result for the year	-	-	-	31,000	31,000
Balance 31 December 2006	23,966	(1,744)	3,208,682	31,000	3,261,904

Movements in capital and reserves for the 2005 year are as follows:

	Share capital	Translation reserve	Accumulated surplus/ (deficit)	Result for the year	Total
Balance 1 January 2005	24,620	(2,398)	2,647,398	337,782	3,007,402
Appropriation of 2005 result	-	-	337,782	(337,782)	-
Translation adjustments	(3,120)	3,120	-	-	-
Result for the year	-	-	-	223,502	223,502
Balance 31 December 2004	21,500	722	2,985,180	223,502	3,230,904



**Notes**  
*(forming part of the financial statements)*

**10 Other income**

	<b>2006 USD</b>	<b>2005 USD</b>
Increase of amounts recoverable under guarantee	3,623,265	292,344
Write-down of OAO LUKOIL shares	<u>(2,464,560)</u>	<u>-</u>
<b>Total other income</b>	<b><u>1,158,705</u></b>	<b><u>292,344</u></b>

The increase of amounts recoverable under guarantee of USD 3,623,265 (2005: USD 292,344) is due to the increased requirement for the Company to call on the OAO LUKOIL guarantee as described in Note 3.

**11 Corporate income tax**

Under Dutch taxation certain income and expenditure are not taxable or tax deductible, and following agreement with the Dutch tax authorities, the corporate charge for the year, after taking into account refunds for overpayments in previous years, was USD 15,568 (2005: USD 5,703).

**12 Directors and Employees**

The Company had one director at 31 December 2006 (2005: one). The Company has no supervisory directors (2005: nil).

**13 Staff Numbers and Employment Costs**

The Company has no employees (2005: nil), other than its director and hence incurred no wages, salaries and related social security charges during the year under review (2005: nil).

By order of the board

Amsterdam, 4 September 2007

**E Telegina**  
Director



## Supplementary Information

### **1 Auditor's Report**

The auditor's report is set out on the following page.

### **2 Profit Appropriation**

The appropriation of the result for the year shall be determined by the shareholders in 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 transfer the result for the year to the accumulated surplus.



To the Management and Shareholders of LUKINTER Finance B.V.

## **Auditor's report**

### **Report on the financial statements**

We have audited the 2006 financial statements of LUKINTER Finance B.V. Amsterdam, which comprise the balance sheet as at 31 December 2006, the profit and loss account for the year then ended and the notes.

### **Management's responsibility**

Management is responsible for the preparation and fair presentation of the financial statements and for the preparation of the managing directors' report, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's responsibility**

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### **Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of LUKINTER Finance B.V. as at 31 December 2006, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Amstelveen, 4 September 2007

**KPMG ACCOUNTANTS N.V.**

A faint, circular stamp or signature, likely a professional seal, located below the text 'KPMG ACCOUNTANTS N.V.'.

**M.M.B. Blauwhoff RA**