

TAX ENVIRONMENT

LUKOIL's business is subject to taxation inside and outside Russia. The scale of the Company's business inside Russia means that its situation as a taxpayer is mainly defined by taxes, payable in that country. In 2003–2007 taxes paid in Russia represented more than 80% of all tax payments by LUKOIL. The main taxes paid by the Group are listed below.

Corporate income tax

Date introduced: 1992

Object: income received by an organization, reduced by incurred costs, defined in accordance with Russian tax law

Tax payers: Russian and foreign organizations, which carry out business or have a source of income in the Russian Federation

Tax rate: 20–24%

Impact on Company business: payment of income tax by the Company increased by 26.5% in 2007 compared with 2006 and totalled \$3,507 mln. The effective income tax rate in 2007 was 26.9%, which is higher than the maximum statutory rate of 24%. This is attributable to the fact that some costs incurred in the current period were not tax deductible or only deductible to a certain limit

Corporate property tax

Date introduced: 1992

Object: real estate and other property of organizations, which is classed on the balance sheet as fixed assets

Tax payers: Russian and foreign organizations, carrying out business and/or having property in Russia

Tax rate: set by regional parliaments; the maximum rate is 2.2%

Impact on Company business: Company spending on property tax in 2007 was \$313 mln, which is \$66 mln more than in 2006

Unified social tax

Date introduced: 2001

Object: wages and other disbursements paid to individuals under employment and other civil law contracts (except those paid to individual entrepreneurs)

Tax payers: entities, which make the above payments and disbursements to individuals (employees)

Tax rate: regressive scale (maximum rate – 26%, on taxable annual wages and disbursements per employee up to a level of

280,000 roubles, calculated cumulatively from the start of the year)

The unified social tax is paid to the federal budget, to the social insurance fund and to medical insurance fund

Impact on Company business: Company spending in 2007 on social taxes and charges was \$442 mln, which is 24.2% more than in 2006

Mineral extraction tax (oil)

Date introduced: 2002

The mineral extraction tax replaced three forms of payment for use of mineral resources, which existed previously – sub-soil resource tax, payments to finance replacement of mineral resources, and excise payments on oil and gas condensate.

Object: mineral resources, extracted on territory under Russian jurisdiction

Tax payers: organizations and individual entrepreneurs, who qualify as extractors of minerals under Russian law

Base tax rate (2005–2007): 419 roubles per ton (applicable tax rate is calculated each month using a coefficient which reflects changes in world prices for oil)

Average rate in 2007: 2,472.7 roubles per ton

Impact on Company business: the mineral extraction tax, together with export duties, is the most significant part of the tax burden on oil companies. In 2007 LUKOIL paid \$8.48 bln as mineral extraction tax (30% of total tax payment by the Company)

Mineral extraction tax (gas)

Date introduced: 2002

Object: gas produced on territory under Russian jurisdiction

Tax payers: organizations and individual entrepreneurs, who qualify as extractors of minerals under Russian law

Tax rate (2007): 147 roubles per th. cm for natural gas and 0 roubles per th. cm for associated petroleum gas

VAT

Date introduced: 1992

Object: sale and transfer of goods, services and property rights inside Russia as well as construction and assembly work for the

From **January 1, 2007 a new law introduced differentiations in the mineral extraction tax**, setting a zero rate for extraction in territories located wholly or partially in the Eastern Siberian oil & gas province (Republic of Sakha (Yakutia), Irkutsk Region, Krasnoyarsk Territory). The zero rate applies until the cumulative volume of oil production reaches 25 mln tons, or the development period exceeds 10 or 15 years depending on the license type. The same tax benefit is available for high-viscosity oil. Also, progressively lower tax rates are set for fields with exhaustion levels higher than 80% (will be applied after development of application practice). The specific tax rate for oil production is the same as in 2006, 419 roubles per ton. This rate is amended using a coefficient that reflects movement of international oil prices and exhaustion levels at specific production locations.

Company's own consumption and import of goods across the Russian customs area

Tax payers: organizations, individual entrepreneurs

Tax rate: 18%; a lower rate of 10% is applicable for taxation of basic food goods, medical goods, goods for children, printed periodicals and books related to education, science and culture; 0% rate is applicable to export operations

Excise (petroleum products)

Date introduced: 1992

Object: sale of products liable to excise in Russia

Products liable to the tax: automobile gasoline; diesel fuel; motor oils for diesel and (or) carburettor (injection) engines; naphta

Payers: organizations and individual entrepreneurs (since January 1, 2007 – refineries, but not organizations selling petroleum products as in 2003–2006)

Rate: excise rates for petroleum products are reviewed annually by the Russian Government. However, the Government has kept rates unchanged in 2007 in order to limit domestic price rises for gasoline

Petroleum products excise (2005–2007), roubles per ton

| | |
|----------------------|-------|
| High-octane gasoline | 3,629 |
| Low-octane gasoline | 2,657 |
| Naphta | 2,657 |
| Motor oils | 2,951 |
| Diesel fuel | 1,080 |

Impact on Company business: excises paid by LUKOIL on sale of petroleum products in Russia totalled \$0.73 bln in 2007. Besides, \$3.47 bln were paid abroad

Export duties (oil)

Date introduced: 1992

Object: oil and gas condensate transported beyond the borders of Russia

Payers: organizations exporting oil and gas condensate from Russia

Rate: changes every 2 months depending on oil prices

Average rate in 2007: \$206.7 per ton

Impact on Company business: total duties paid on exports of oil and petroleum products in 2007 were \$10.83 bln (39% of total tax paid by the Company), which is an increase of 7.0% compared to 2006

Export duties (petroleum products)

Date introduced: 1992

Object: petroleum products transported beyond the borders of Russia

Payers: organizations exporting petroleum products from Russia

Rate: different rates apply for different petroleum products types (light and dark), and rates are subject to change by the Russian Government depending on changes in prices for oil
Average rate in 2007: \$151.6 per ton for light products and \$81.6 per ton for dark products

Export duties (gas)

Date introduced: 1992

Object: gas transported beyond the borders of Russia

Payers: organizations exporting gas from Russia

Rate: natural gas in a gaseous state is liable to export duty at 30% of its value for customs purposes; a zero rate for customs duties on export of liquefied natural gas was introduced in 2006 (previously 40 euros per ton)

Tax on income received as dividends

Date introduced: 1992

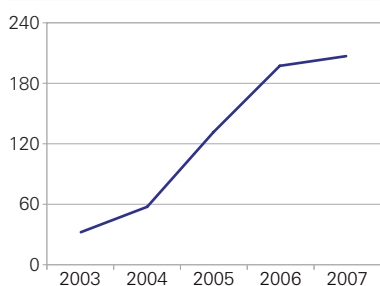
Object: income received as dividends

Tax payers: Russian and foreign organizations and individuals

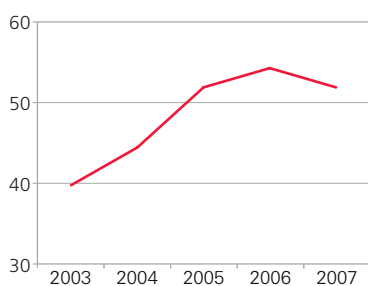
Tax rate: 9% of dividends paid by Russian organizations to Russian organizations and by Russian and foreign organizations to Russian individuals; 15% of income received in the form of dividends by foreign organizations from Russian organizations, and by Russian organizations from foreign organizations; 30% of income received in the form of dividends by foreign individuals from Russian organizations

Impact on Company business: Russian tax legislation allows offsetting of tax paid by LUKOIL on dividends from its subsidiaries and dependent companies when the Company pays dividends to its shareholders. This way of avoiding dual taxation means that Russian shareholders of LUKOIL will not have to pay or will pay less tax on dividends under certain conditions

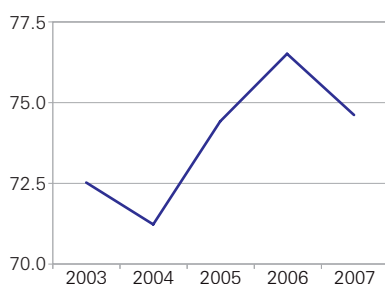
Average crude oil export tariff, \$ per ton



Share of taxes, excises and export tariffs in sales after cost of purchased crude oil and petroleum products, %



Share of taxes, excises and export tariffs in income before their payment, %


Mineral extraction tax (MET), \$ per ton

$$MET = \frac{\text{Base tax rate} \times (\text{Oil price} - \text{Base oil price}) \times \text{Reserve exhaustion rate}^*}{\text{Base exchange rate (RUR/USD)} \times \text{Base oil price}}$$

| | | 2004 | 2005–2007 |
|------------------------------|-----------------|------|-----------------|
| Oil price | \$ per barrel | | Urals oil price |
| Base oil price | \$ per barrel | 8 | 9 |
| Base tax rate | roubles per ton | 347 | 419 |
| Base rouble/\$ exchange rate | rouble/\$ | 31.5 | 29.0 |

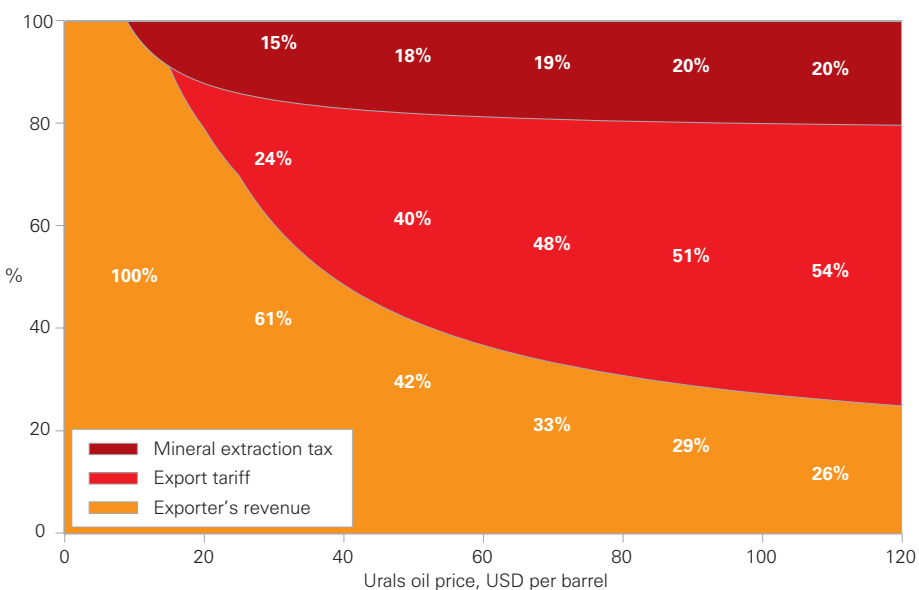
* From January 1, 2007.

The rate of the mineral extraction tax changes each month. For example, the tax rate for June is calculated in July based on the average international market price for Urals crude in June.

Crude oil export tariff, \$ per barrel

| Oil price (P), \$ per barrel | Tariff rate, \$ per barrel | |
|------------------------------|------------------------------|-------------------------------|
| | before June 2004 | after June 2004 |
| $P < 15$ | 0 | 0 |
| $15 < P < 20$ | $(P - 15) \times 35\%$ | $(P - 15) \times 35\%$ |
| $20 < P < 25$ | $(P - 15) \times 35\%$ | $1.75 + (P - 20) \times 45\%$ |
| $P > 25$ | $3.5 + (P - 25) \times 40\%$ | $4.0 + (P - 25) \times 65\%$ |

The export tariff rate on crude oil is revised every two months. For example, the export tariff rate for April–May is calculated in March based on the average price of Urals oil on the international market in January–February.

Dependence of crude oil export tariff rate and mineral extraction tax rate on oil prices (model applied in 2005–2007), \$ per barrel


»»» FORWARD-LOOKING STATEMENTS

Certain statements in this document are not historical facts and are "forward-looking". 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 products or services;
- statements of future economic performance; and
- statements of assumptions underlying such statements.

Forward-looking statements that may be made by us from time to time (but that are not included in this document) 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. Words such as "believes," "anticipates," "expects," "estimates," "intends" and "plans" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. 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:

- inflation, interest rate and exchange rate fluctuations;
- the price of oil;
- the effects of, and changes in, Russian government policy;
- the effects of competition in the geographic and business areas in which we conduct operations;
- 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; and
- our success at managing the risks of the aforementioned factors.

This list of important factors is not exhaustive. 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 are made and, subject to any continuing obligations under the Listing Rules of the U.K. Listing Authority, 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.