



On approval of the Rules (methodology) of determining the market price of goods sold under production sharing agreements, including transactions with parties registered in countries with concessional taxation

Unofficial translation

Resolution No. 848 of the Government of the Republic of Kazakhstan dated June 26, 2012

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In accordance with paragraph 1 of Article 10-1 of the Law of the Republic of Kazakhstan dated July 5, 2008 “On Transfer Pricing”, the Government of the Republic of Kazakhstan hereby RESOLVES:

1. To approve the attached Rules (methodology) for determining the market price of goods sold under production sharing agreements, including transactions with parties registered in countries with concessional taxation.

2. This resolution shall take effect from January 1, 2009 and is subject to official publication.

Prime Minister of the Republic of Kazakhstan

K. Massimov

Approved by
Resolution No. 848
of the Government
of the Republic of Kazakhstan
dated June 26, 2012

Rules (methodology) of determining the market price of goods, sold under production sharing agreements, including transactions with parties registered in countries with concessional taxation 1. General Provisions

1. These Rules (methodology) for determining the market price of goods sold under production sharing agreements, including transactions with parties registered in countries with concessional taxation (hereinafter - the Rules), establish the procedure for determining (calculating) prices on transactions made in accordance with sales and purchase contracts for oil and gas raw materials produced in the Karachaganak oil and gas condensate field.

2. Terms used in these Rules

2. Terms, definitions and abbreviations used in these Rules:

1) fair market price or fair market cost- has the meaning specified in article I of the FPSA (definitions of terms from article I of the Final Production Sharing Agreement, which are contained in these Rules and are given in the supplement to these Rules);

2) joint management committee - has the meaning specified in subsection 6.1 of the FPSA

;

3) approved transactions - has the meaning specified in subsection 9.2 (b) (iv) of the FPSA and paragraph 7 of these Rules;

4) BTU (British Thermal Unit) means the heat amount needed to raise the temperature of one pound (in the British system of measures) of pure water from 59.0 degrees Fahrenheit to 60.0 degrees Fahrenheit at an absolute pressure of 14.696 psi (pound/sq. inch);

5) joint activity - has the meaning specified in subsection 9.2 (b) of the FPSA and paragraph 4 of these Rules;

6) FSU means countries or territories that, as of December 31, 1984, were part of the Union of Soviet Socialist Republics;

7) gas project - has the meaning specified in article I of the FPSA;

8) challenged transaction - a transaction specified in subsection 9.2 (b) (v) of the FPSA and paragraph 8 of these Rules;

9) challenged transaction initiator (hereinafter - CTI) - has the meaning specified in subsection 9.2 (b) (v) of the FPSA and paragraph 8 of these Rules;

10) delivery point - has the meaning specified in article I of the FPSA;

11) participant or participants - has the meaning specified in paragraph 3 of these Rules;

12) CPC - has the meaning specified in article I of the FPSA;

13) contractor - contractor companies referred to in Article I of the FPSA;

14) oil and gas raw materials - has the meaning specified in article I of the FPSA;

15) oil and gas raw materials share - has the meaning specified in article I of the FPSA;

16) FPSA - final production sharing agreement for the contractual site of the Karachaganak oil and gas condensate field dated November 18, 1997 (as amended);

17) FPSA effective date means January 27, 1998;

18) authorized body - has the meaning specified in article I of the FPSA;

19) joint marketing committee (hereinafter - JMC) - a committee specified in subsection 9.2 (a) of the FPSA;

20) expert – means the person specified in subsection 30.2 (b) of the FPSA;

21) net receipts - has the meaning specified in subsection 9.2 (b) (ii) of the FPSA;

22) final sale - has the meaning specified in article I of the FPSA;

23) BC means Big Chagan;

24) FOB means, in relation to any volume of hydrocarbons at any delivery point, that these hydrocarbons are provided for shipment at that delivery point on a free onboard FOB) conditions, but without making prepayment or assuming other obligations in relation to further transportation, treatment, insurance and any other levies, costs or expenses;

25) small oil refinery (hereinafter -a small refinery) - has the meaning specified in article I of the FPSA.

3. Establishment of a joint marketing committee and authority scope thereof, approved and challenged transactions

3. In accordance with Article IX of the FPSA (as set out in the supplement to these Rules) , the parties shall establish a joint marketing committee (JMC). In accordance with the FPSA the JMC shall comprise one person from each contractor company (or from each group of contractor companies that came to an agreement to act jointly) and the same number of Participants from the authorized body (or a smaller number determined at the discretion thereof); to hold meetings a quorum shall be required, represented by the majority of persons appointed by contractor companies and the majority of persons appointed by the authorized body.

The authorized body or contractor (each to be named as Participant as applied to these Rules) shall have one vote in the course of taking decisions by the JMC, at that, to take any decision of that kind, it is necessary for both Participants to vote for this decision.

4. In accordance with the provisions of Article IX of the FPSA, all the decisions regarding transportation, treatment, exchange and sale (both within the final sale and otherwise) of oil and gas raw materials, except for those from a reliable flow, as provided for in section 9.7 of the FPSA (joint activity), shall be taken by the JMC or by the contractor provided that the contractor is vested with the JMC powers. To avoid misinterpretation, joint activities shall primarily include, inter alia:

1) decisionmaking on the transportation, exchange and sale of oil and gas raw materials to be pumped via the CPC system;

2) decisionmaking on the transportation, exchange and sale of oil and gas raw materials to be directed to Orenburg city;

3) oil and gas raw materials to be sold under the gas project;

4) oil and gas raw materials to be sold to a small refinery in accordance with section 9.13 of the FPSA.

5. Each Participant shall have the right to offer transactions to JMC, on condition that such offer (x) will provide for a final sale transaction and (y) will provide for either the use of existing commercial agreements (previously approved by JMC) between the delivery point and the sale point within the proposed final sale transaction so as not to impede their use for other joint activities or the use of proposed new commercial arrangements that will not impede the existing joint activities. The JMC shall take decisions for the purposes of ensuring maximum net receipts, subject to the volumes, conditions, reliability and credit solvency of the counterparty and presence or absence of alternatives.

6. The participant shall have the right to challenge the proposed transaction only in the following events:

1) when another transaction can be made resulting in higher net revenue;

2) in respect of final sale transactions - the buyer is unable to ensure reliability of the payment sufficient to back up the transaction;

3) when the proposed transaction carries a higher risk of default by the counterparty than other options available for the transaction;

4) when the extraction cost of oil and gas raw materials required to carry out the proposed transaction is higher than the estimated net revenue;

5) when, in the absence of another directly possible option, the Participants commit themselves to a much longer term than the one during which it is possible with a reasonable degree of probability to expect the emergence of a more profitable alternative transaction option;

6) in respect of contracts whose validity term exceeds one year, when the proposed transaction does not contain a provision on price indexation, sufficiently reflecting possible rise in the fair market price during the transaction period;

with the exception of cases where the objecting Participant offers an alternative transaction, the amount of which does not exceed the share of oil and gas raw materials that is due to this Participant minus its proportional share of existing contractual obligations, as well as cases when by force of the existing production capacity or existing commercial arrangements (previously approved by the JMC) these two proposed options are to a certain extent mutually exclusive.

7. Transactions approved by the JMC shall be referred to as “Approved Transactions”. The shares of oil and gas raw materials of both Participants shall be distributed between the approved transactions, while both Participants take a share in costs and revenue receipts in connection with the approved transactions on a pro rata basis.

8. If the JMC does not approve the proposed transaction, the Participant who proposed it (the “challenged transaction initiator” or “CTI”) may carry out the indicated transaction (“Challenged Transaction”) for a term of not more than three years by purchasing this amount of oil and gas raw materials at the delivery point, provided that the specified amount does not exceed the right of the CTI to oil and gas raw materials, and taking into account existing contractual obligations on a pro rata basis for both Participants at a fair market price as established by Section 9.2 (b) (vi). In cases (x) when any Participant wishes to carry out a transaction which is challenged by the other Participant on economic reasons set forth in subparagraphs (a) - (e) of paragraph 6 of these Rules, and (y) when the other Participant wishes to carry out a transaction which is challenged by the first Participant solely on non-economic reasons set forth in the proviso at the end of paragraph 6, and (z) when two transactions are mutually exclusive partially or completely in connection with restrictions on production capacity and existing contractual obligations, then the proposed transaction mentioned in part (x) above may be carried out as a challenged transaction to the extent consistent with the right of the Participant to offer oil and gas raw materials, minus a proportionate share of its existing obligations, and herewith, the proposed transaction referred

to in part (y) above shall be carried out as an approved transaction to the extent consistent with the right of the Participant, who offered it, on oil and gas raw materials, less a pro rata share of its existing commitments.

9. The cost of oil and gas raw materials marketed through the challenged transaction shall be determined (x) by the JMC or (y) in the absence of consent from the JMC - as agreed by the Participants or (z) in the absence of consent from the Participants - by the Expert in the manner specified in subsection 9.2 (b) (vi) and article XXX of the FPSA (as set out in the supplement to these Rules).

4. Pricing procedure on oil and gas raw materials produced at the Karachaganak oil and gas condensate field

10. The transaction price for oil and raw materials, except for transactions on the purchase and sale of unstabilized condensate and crude gas supplied for further processing at the Orenburg gas processing complex, to which paragraph 11 of these Rules applies, shall be determined as follows:

to determine the transaction price for oil and gas raw materials, the contractor applies the methodology specified in article IX of the FPSA. Transactions shall be approved by the joint marketing committee (or in transactions that are otherwise carried out and evaluated with involvement of the Expert, in accordance with the challenged transaction procedure provided for in subsection 9.2 (b) (v) - (vi) of the FPSA). The resulting transaction price shall be considered to be market based and on the “arm's length” principle.

11. The transaction price for unstabilized condensate and crude gas supplied for further processing to the Orenburg gas processing complex shall be determined as follows:

taking into account (1) conditions on the local market, including impossibility of storing unstabilized condensate and crude gas at the production site due to the properties of these products, (2) a limited number of customers with unlimited access to the Orenburg gas processing complex and local oil refineries, (3) given the existence of monopoly on the transport and processing of unstabilized condensate and crude gas and the fact that (4) supplies of unstabilized condensate and crude gas for further processing at the Orenburg gas processing complex can be carried out only via a special pipeline system, which in turn significantly impacts formation of the market price, to determine the transaction price for unstabilized condensate and crude gas for further processing at the Orenburg gas processing complex, the contractor shall apply the methodology specified in article IX of FPSA. Transactions shall be approved by the joint marketing committee in accordance with Article IX of the FPSA (or for transactions that are otherwise carried out and evaluated with involvement of the Expert in accordance with the challenged transaction procedure specified in subsection 9.2 (b) (v) - (vi) of the FPSA). The resulting transaction price shall be considered to be market based and on the “arm's length” principle.

12. The procedure (methodology) for determining the market price established by these Rules shall be applied to transactions concluded from the effective date of the FPSA, including transactions with counterparties registered in the countries with concessional taxation.

Supplement
to Resolution No. 848
of the Government
of the Republic of Kazakhstan
dated June 26, 2012

ARTICLE I. "Definitions" of the Final Production Sharing Agreement for the contractual site of the Karachaganak oil and gas condensate field dated November 18, 1997 (Extract) DEFINITIONS

The authorized body shall mean a closed joint-stock company Kazakhoil National Oil and Gas Company, acting in the interests of the Republic of Kazakhstan, or any other individual or legal entity designated by the Government of the Republic of Kazakhstan as the "Authorized Body" or its successors.

Contractor shall mean (i) for the period from the date of the license issue to the date of the Texaco share acquisition (not including this date) - Agip, British Gas and RAO Gazprom; (U) for the period from the date of Texaco share acquisition (inclusive) until the date of signing of this Agreement (not including this date) - Agip, British Gas, RAO Gazprom and Texaco; and (iii) for the period from the date of signing of this Agreement (inclusive) and further (subject to the provisions of Article XXIII and this Agreement) - Agip, British Gas, Texaco and LUKOIL. The relative shares of the contracting companies in the contractor at the date of conclusion of this Agreement are as follows (and may be changed only in accordance with the provisions of Article XXIII of this Agreement): Agip - 32.5%; British Gas-32.5%; Texaco - 20%; and LUKOIL - 15%.

CPC means the pipeline from Atyrau to Novorossiysk, which is to be built and put into operation.

A delivery point with respect to any volumes of oil and gas raw materials received under this Agreement shall mean, most commonly, a point in Kazakhstan through which oil and gas raw materials are carried from the contractual site, or if such volume cannot be measured for the purpose of distribution of products under this Agreement, the first point in Kazakhstan after removal outside the contractual site where such a measurement can be made; with the only proviso, however, that for oil and gas raw materials pumped through the connecting pipeline, the delivery point will be BC, and for oil and gas raw materials pumped along the lines to Orenburg, the delivery point will be the intersection point of these lines with the

border between the Republic and the Russian Federation; also with the proviso that JOC is entitled intermittently to additionally establish other delivery points for specific flows of oil and gas raw materials.

Fair market price or fair market cost in relation to the sale or supply of any inventory or service provision shall mean the price in monetary terms that can be achieved by fair sale by an independent third party of such inventory or service in the respective market, when the price in monetary terms is the only form of payment.

Final sale shall mean any sale of (i) oil and gas raw materials or (ii) any hydrocarbons received by a contractor or contractor company or the authorized body in an exchange transaction or a series of hydrocarbon exchanges in which the first such exchange transaction involved the supply of oil and gas raw materials by a contractor or contractor company or the authorized body for remuneration not in the form of hydrocarbons. To avoid misinterpretation, a hydrocarbon exchange transaction shall not be considered a sale in relation to this Agreement.

Gas project shall mean an enterprise designed for (i) an initial processing capacity of 5 billion cubic meters per year of (crude) gas (or more or less as agreed by the authorized body, contractor and sponsors of the gas project) and (ii) for the final processing capacity of at least 10 billion cubic meters per year of (crude) gas; also pipelines for transporting purified gas to a delivery point, agreed upon between the sponsors of the gas project and the republic.

Oil and gas raw materials shall mean oil, gas, condensate, other hydrocarbon products, and all other hydrocarbon substances that can be discovered, extracted or otherwise obtained and stored during the operation of the contract area.

The share of oil and gas raw materials under this Agreement in relation to the contractor, any contractor company or the competent authority shall mean, respectively, the total amount of compensatory oil and gas raw materials, profitable oil and gas raw materials and other oil and gas raw materials, which in accordance with the terms of this Agreement and related documents will be due intermittently to this party.

A small refinery shall mean (and shall be limited to this meaning) an oil processing and oil refining plant, designed to treat 400,000 tons of liquid hydrocarbons per year, which has already been partially built on the territory of the contractual site.

ARTICLE IX. "Realization and calculation of the cost of oil and gas raw materials" of the Final Agreement on the production sharing of the contractual site of the Karachaganak oil and gas condensate field dated November 18, 1997

SECTION 9.1. General Provisions In relation to all financial indicators, the cost of oil and gas raw materials and associated substances shall be determined in accordance with the procedure established in this article. Sales and other types of realization of oil and gas raw materials and associated substances shall be carried out in accordance with the procedure established in this article IX. This article also stipulates conditions or methodology for determining the conditions for the offtake of oil and gas raw materials from small refineries,

offtake of oil and gas raw materials obtained in accordance with Article IX, and the sale of oil and gas raw materials realized in connection with challenged transactions.

SECTION 9.2. Joint marketing. (a) Joint Marketing Committee. The parties shall establish a joint marketing committee (JMC). JMC shall comprise one person from each contractor company (or from each group of contractor companies that agreed on acting jointly) that has at least fifteen percent (15%) interest and the same number of Participants from the authorized body (or a smaller number determined at the discretion thereof). To hold meetings a quorum is required, which shall be made up of the majority of persons appointed by the contractor companies and majority of persons appointed by the authorized body. The authorized body and contractor (each to be named as Participant as applied to this Article IX) shall have one vote in the course of taking decisions by the JMC, at that, to take any decision of that kind, it is necessary for both Participants to vote for this decision.

(b) Jointly resolved matters, (i) starting from the date of entry into force, subject to subsections below (iv), (v) and (vi), all the decisions regarding transportation, treatment, exchange and sale (both within final sale, one way or another) of oil and gas raw materials, with the exception of raw materials from reliable flow, as provided for in Section 9.7 (“Joint Activities”), shall be taken by the JMC or the contractor provided that the contractor is vested with the JMC powers. To avoid misinterpretation, joint activities shall initially include, inter alia, (A) decisionmaking on the transportation, exchange and sale of oil and gas raw materials pumped via the CPC system, (B) decisionmaking on the transportation, exchange and sale of oil and gas raw materials directed to Orenburg, and (C) oil and gas raw materials to be sold on the gas project, and also (D) the oil and gas raw materials to be sold to a small refinery in accordance with section 9.13.

(ii) Each Participant shall have the right to offer transactions to the JMC on condition that such offers (x) will provide for the proposed final sale transaction and (y) will provide for either the use of existing commercial agreements (previously approved by the JMC) between the delivery point and the sale point within the proposed final sale transaction so as not to impede their use for other types of joint activities, or the use of the proposed new commercial arrangements that will not impede the existing types of joint activities. The JMC shall take decisions for the purposes of ensuring maximum net receipts, subject to the volumes, conditions, reliability and credit solvency of the counterparty and presence or absence of alternatives. As applied to this Article IX, the term “Net Revenue” shall mean the total proceeds from final sale, sale to a third party and sale to a related party, net of selling costs, as defined in this term in section 9.5.

(iii) The Participant shall have the right to challenge the proposed transaction only in the following events:

(A) when another transaction can be made, resulting in higher net receipt;

(B) in respect of final sale transactions, when the buyer is unable to ensure a reliable payment sufficient to back up the transaction;

(C) when the proposed transaction carries a higher risk of default by the counterparty than other available transaction options;

(D) when the cost of extraction of oil and gas raw materials required to carry out the proposed transaction is higher than the estimated net receipt;

(E) when, in the absence of another directly possible option, the Participants commit themselves to a much longer term than the one during which it is possible with a reasonable degree of probability to expect the emergence of a more profitable alternative transaction option;

or

(F) in respect of contracts whose validity term exceeds one year, when the proposed transaction does not contain a provision on price indexation, sufficiently reflecting possible rise in the fair market price during the transaction period;

with the exception of cases where the objecting Participant offers an alternative transaction, the amount of which does not exceed the share of oil and gas raw materials that is due to this Participant minus its proportional share of existing contractual obligations, as well as cases when by force of the existing production capacity or existing commercial arrangements (previously approved by the JMC) these two proposed options are to a certain extent mutually exclusive.

(iv) Transactions approved by the JMC shall be referred to as “Approved Transactions”- the shares of oil and gas raw materials of both Participants shall be distributed between the approved transactions, and both Participants shall take a share in the costs and revenue receipts in connection with the approved transactions on a pro rata basis.

All the transaction obligations assumed by the contractor as the agent of the authorized body and in force on the effective date shall apply to the approved transactions within the specified period of validity of these obligations, but not including any extension periods, except those carried out exclusively at the discretion of the counterparty. Marketing of oil and gas raw materials to a small refinery as provided for in section 9.13 shall also apply to approved transactions.

(v) If the JMC does not approve the proposed transaction, the Participant who proposed it (the “challenged transaction initiator” or “CTI”) may carry out the indicated transaction (the “Challenged Transaction”) for a period of not more than three years by purchasing this amount of oil and gas at the delivery point, provided that the specified volume does not exceed the right of the CTI to oil and gas raw materials, and taking into account the existing contractual obligations on a pro rata basis for both Participants at a fair market price as determined in Section 9.2 (b) (vi). Payment of the indicated purchased volume is made, if possible, by a compensation offset between the amount of payment by the CTI of the indicated purchased volume and the monetary amount provided for by the equity right of the CTI in this or subsequent contract periods from the net receipts of the approved transactions and the challenged transactions. In cases (x) when any Participant wishes to carry out a transaction,

which is challenged by another Participant on economic grounds set forth in subsections (A) - (F) of section 9.2 (b) (iii), and (s) when another Participant wishes to carry out a transaction which is challenged by the first Participant solely on non-economic grounds, set forth in the proviso at the end of section 9.2 (b) (iii), and (z) when two transactions are partially or fully mutually exclusive in connection with restrictions in respect of production capacity and existing contractual obligations, then the proposed transaction referred to in p. (x) above may be carried out as a challenged transaction to the extent consistent with the right of the Participant to offer it for oil and gas raw materials, minus a proportionate share of its existing obligations, and at the same time, the proposed transaction referred to in subsection (y) above shall be carried out as an approved transaction to the extent consistent with the right of the Participant offering it in oil and gas raw materials, less a pro rata share of its existing commitments.

(vi) The cost of oil and gas raw materials marketed by the challenged transaction, in relation to financial indicators, as well as in the calculation of the amount payable by the acquiring Participant, shall be determined at a fair market price at the delivery point that would have been received as a result of an independent commercial transaction and determined by (x) JMC, or (y) in the absence of consent from the JMC - as agreed by the Participants, or (z) in the absence of consent from the Participants - by the Expert in accordance with the procedure established by this present sub-section and Article XXX. In determination of such a fair market price at the independent commercial transaction of the JMC, the Participants or Expert, depending on the circumstances, shall take into account the following factors:

(A) availability of alternative transaction options in relation to oil and gas raw materials of the type proposed for marketing within the challenged transaction, in the existence of such options, (and the net value of such transactions);

(B) net unit cost of the output (unit cost) of this type of crude oil and gas raw materials resulting from existing approved transactions (but only if the specified approved transactions are able to provide such a net unit cost at a higher specific throughput);

(C) net unit cost that is likely to be achieved as a result of the challenged transaction (taking into account all relevant factors, including, in particular, the counterparty's reliability and solvency);

(D) duration of the proposed transaction and of any more advantageous alternative transactions that are likely to emerge within a specified period; and

(E) Participants' goals for maximizing net receipt.

If the fair market price in an independent commercial transaction is determined by the Expert, the latter shall also (aa) indicate whether the unit value determined by him will be higher, equal to or less than the probable net unit value of the challenged transaction, determined by him, and provide rationale for it; and (bb) in respect of the transactions involving liabilities whose validity term is longer than one year - determine firstly whether it

is necessary, and if it is, to what extent the fair market price of the said transactions has to be adjusted during the validity term of the agreement, and secondly, what should be the appropriate mechanism for the implementation of any such necessary adjustments. After the Expert makes this conclusion, each Participant may change its decision within ten (10) days (i.e. the Participant who initiated the challenged transaction may decide not to carry it out, or the Participant who challenged it may decide to withdraw the objections (and in the latter case, this transaction shall qualify as an approved transaction)).

(vii) In cases where the Expert determines that the specific fair market price for the challenged transaction does not exceed the probable specific net value of the challenged transaction determined by him, the proposed transaction shall become an approved transaction.

(viii) Each Participant shall annually submit to the JMC an accounting report on its challenged transactions throughout the previous twelve months, indicating the net revenue received per unit of output over the specified period. If, as a result of the challenged transaction, net proceeds per unit of output are obtained in the amount of at least the specific fair market price determined by the JMC, the Participants or the Expert, then, at the discretion of the Participant who initially challenged the transaction proposed at that time, such a transaction can be considered as if it were an approved transaction within the specified twelve-month period, with the introduction of appropriate adjustments to the joint bank account and to all the settlements relating to financial indicators.

(c) Implementation of approved transactions. The contractor shall assume responsibility for all the approved transactions.

(d) Implementation of challenged transactions. At the delivery point the ownership right of all oil and gas raw materials directed for the fulfillment of the challenged transactions shall pass to the initiator of the challenged transaction, and at the same time he (it) shall assume responsibility for all subsequent activities related to this oil and gas raw material, with the only proviso that the CTI is entitled to request the contractor to carry out the specified activity, and his request is not groundlessly rejected.

(e) Information disclosure. The contractor shall provide any member of the joint marketing committee, upon request, with all information and documentation regarding all the approved transactions and challenged transactions carried out by the contractor.

(f) Access to facilities. To avoid misunderstanding, it shall be acknowledged by the parties that implementation of the challenged transaction by the authorized body does not relieve the contractor of its obligations under section 3.10.

(g) If the JMC identifies opportunities for approved transactions on the basis of a cash sale (spot transaction), then the JMC shall take appropriate arrangements to enable such sales without the need to approve each transaction with the JMC.

SECTION 9.3. Calculation of the value of challenged transactions. The cost of oil and gas raw materials obtained for the purpose of challenged transactions fulfillment shall be

determined in accordance with the above provisions of Section 9.2 (b) (vi) in relation to all the financial indicators and to calculation of the amount payable by the acquiring Participant. The rights of both Participants to oil and gas raw materials shall be distributed pro rata in relation to the challenged transactions, and both Participants shall take a share in the receipts from the purchase of the indicated oil and gas raw materials from the CTI on a pro rata basis. The Contractor shall keep separate records on each of the challenged transactions carried out by it for the Participant in whose favor the challenged transaction is carried out, and shall pass to the credit or debit of the Participant the difference between (i) the estimated value determined in accordance with the above provisions of Section 9.2 (b) (vi), and (ii) receipts actually received, net of actual costs, by their nature attributable to selling costs. These credits or debits shall not be taken into account in the calculation of all the financial indicators.

SECTION 9.4. Calculation of the cost of oil and gas raw materials obtained for the purpose of sale within the approved transactions.

The cost of oil and gas raw materials obtained for the purpose of sale within the approved transactions frames, with regard to all the financial indicators, shall be determined in the following order.

(a) The cost of each barrel of liquid hydrocarbons produced during the contract term shall be determined in the following order:

(i) at the delivery point, each barrel is assigned a conditional value equal to zero. Proceeding from the subsequent adjustment in the order prescribed in this section, the conditional value must be used to calculate all financial indicators;(ii) after that, the cost of each barrel shall be adjusted to the time of its (or of any hydrocarbons received in exchange for it) sale, usage for payment in kind, final determination of its loss or final sale in another order, as follows:

(A) in the event of sale to a third party (except for challenged transactions) - the cost of a barrel shall be determined by the amount of actual receipt received in relation to the specified sale transaction per barrel, net of selling costs per barrel for this sale;

(B) in the event of a sale to a related party, which represents the final sale with delivery to the export point from the FSU or to the point outside the FSU (except for challenged transactions) - on each consignment the cost per barrel shall be determined by arithmetic average price per barrel of representative liquid hydrocarbons and liquid hydrocarbon products for a five-day period, the central date of which shall be the date of the bill of lading for the given batch, on FOB terms representative export ports published in the Platts Oilgram (or in another directory of market prices, internationally recognized and selected by consent of the parties), as amended by quality, grade, volume and other special circumstances (if any), net of sales costs per barrel, for this sale;

(C) in the event of sale to a related party, which represents the final sale with delivery to a point on the territory of the FSU (except for challenged transactions) for each consignment, the cost per barrel shall be determined by its fair market price at the point of delivery to the

buyer, determined on the basis of similar transactions with similar liquid hydrocarbons or liquid hydrocarbon products, with the necessary adjustments to the place, nature of the parties and difference in quality, less the cost of sales per barrel for this sale;

(D) in the event of a sale in the frames of challenged transaction, the cost per barrel shall be determined in accordance with the procedure established in section 9.2 (b) (vi);

(E) in the event of finally established loss of product, for each lost volume the cost per barrel will be zero or a higher value for each barrel that will be ultimately received as a result of any claim brought against third parties to recover these losses, whether in accordance with insurance contracts, contracts for the transportation and treatment of products, other agreements or otherwise;

(F) if used for payment in kind, the cost of a barrel will be equal to the weighted average (in volume) value (determined in accordance with paragraphs (A) - (C) above, but before deducting the sales costs) on all liquid hydrocarbons sold in final sale transactions over a given contract period; with the only proviso, however, that in the absence of such final sale transactions over a given contract period, the value will be equal to the average value determined over the last contract period where it is deemed determinable, or if the indicated average value was not determined for any previous contract period - the average value determined for the nearest contract period, where it is deemed determinable;

(G) in the event of sales with the use of barter, the cost of a barrel shall be determined by the weighted average (by volume) value (determined in accordance with paragraphs (A) - (C) above, but before deducting the sales costs) for all liquid hydrocarbons sold within the final sale transactions for a given contract period; with the only proviso, however, that in the absence of such final sale transactions for a given contract period, the value will be equal to the average value determined for the last contract period where it is deemed determinable, or if the indicated average value was not determined for any previous quarter - the average value determined for the nearest contract period where it is deemed determinable, minus the cost of sales per barrel specifically for this sale;

(H) in the event of oil and gas raw materials sale in a different order than that specified in paragraphs (A) - (G) of this section 9.4, the JMC shall agree on an appropriate calculation method, including any provisions on accounting for sales costs, if necessary. In the absence of approval by the JMC, this issue shall be referred for expert review as provided in section 30.2

(b) the value of each thousand cubic meters of gas received during the contract period shall be determined in the following order:

(i) at the delivery point, each thousand cubic meters is assigned a conditional value equal to zero;

(ii) after that, the cost of each thousand cubic meters of gas is adjusted to the time of its (or any hydrocarbons received in exchange for it) sale, use for payment in kind, final determination of its loss or final sale in a different order, as follows:

(A) in the event of a sale to a third party (except for challenged transactions), the value is determined by the amount of actual receipts received from the said sale for one thousand cubic meters, net of selling costs per thousand cubic meters, specifically for this sale;

(B) in the event of a sale to a related party, which appears as final sale (except for challenged transactions), the cost is determined at the price per thousand cubic meters of gas for a given contract period agreed by the parties to this Agreement, net of selling costs per thousand cubic meters for this sale;

(C) in the event of a sale to a gas project, the cost shall be determined on the terms provided for in the supply agreement agreed upon between the authorized body, contractor and sponsors of the gas project, net of selling costs per thousand cubic meters for this sale;

(D) in the event of sale in the frames of a challenged transaction, the value shall be determined in accordance with the procedure established in section 9.2 (b) (vi);

(E) in the event of the finally established loss of production, for each lost volume the cost will be equal to zero or a higher value for every thousand cubic meters ultimately received as a result of any claim brought against third parties for the purpose of recovering these losses, whether in accordance with insurance contracts, contracts for the transportation and treatment of products, other agreements or otherwise;

(F) if used for payment in kind, the cost will be equal to the weighted average (in volume) value (determined in accordance with paragraphs (A) - (B) above) before deducting the selling costs for all gas sold within the final sale transactions for a given contract period; with the only proviso, however, that in the absence of such final sale transactions for a given contract period, the value will be equal to the average value determined for the last contract period where it is deemed determinable, or if the indicated average value was not determined for any previous contract period - the average value determined for the next contract period, where it is deemed determinable;

(G) in the event of sales through barter, the value is determined by the weighted average (in volume) value (determined in accordance with paragraphs (A) to (C) above) before deducting the sales costs for all gas sold within the final sale transactions for the given contract period; with the only proviso, however, that in the absence of such final sale transactions for the given contract period, the value will be equal to the average value determined for the last contract period where it is deemed determinable, or if the indicated average value was not determined for any previous contract period - the average value determined for the next contract period, where it is deemed determinable, minus the cost of sales per thousand cubic meters specifically for this sale.

(H) in the event of sale of oil and gas raw materials in a different order than that specified in paragraphs (A) - (G) of this section 9.4, the JMC shall agree on an appropriate calculation method, including any provisions on accounting for sales costs, if necessary. In the absence of approval by the JMC, this issue shall be referred for expert review as provided in section 30.2

(c) At the moment when it is feasible to receive other hydrocarbon products and (or) any associated substances for their sale separately from liquid hydrocarbons or gas, the parties shall be required to meet for negotiations in good faith to determine the calculating method for the cost of the said products. These negotiations must decide whether these transactions should initially be considered as an integral element of a joint activity in accordance with Section 9.2 or as a sale to reliable flows in accordance with Section 9.7. If they are referred to as an integral element of a joint activity, the JMC shall establish the procedure for formal examination and approval with the JMC of the issue that the terms of transportation, processing, exchange, intermediate and final sale transactions with respect to other hydrocarbon products are recognized as relevant to a reliable flow and no longer regulated by the joint activities procedure.

(d) In cases when the oil and gas raw materials supply to the competent authority is carried out in accordance with the terms of Article XI, the calculation of the cost of this oil and gas raw materials in relation to financial indicators shall be carried out on the actual revenue received in relation to this transaction per unit of output.

(e) For the purpose of distributing the final sales of oil and gas raw materials received for the purpose of sales under approved transactions, and losses of oil and gas raw materials originally received for the purpose of sales within the frames of approved transactions not included in the costs of selling oil and gas raw materials received for carrying out approved transactions, the FIFO order of receipt shall apply. In relation to this Agreement, the FIFO principle means that oil and gas raw materials are deemed realized or lost in the same sequence as they were received by the contractor at the delivery point.

(f) If the volumes in any final sale are not measured in barrels (in the case of liquid hydrocarbons) and not in thousands of cubic meters (in the case of gas), but in other units of measurement, then the prices that apply to these sales transactions shall be adjusted in such a way as to reflect the price per barrel or per thousand cubic meters (depending on the circumstances) using conversion factors determined by agreement with the JMC, and in the absence of such coordination - determined by the Expert.

(g) If either party is able to prove in a form acceptable enough for the other party that there is a method for calculating the cost of liquid hydrocarbons realized as part of the final sale transaction in the FSU, enabling a more objective determination of the value of these hydrocarbons, then this method shall be applied to calculate the value of the final sale transactions relating to the sale to related parties of specified hydrocarbons for delivery to the FSU.

(h) In the event that an individual or legal entity transporting or processing oil and gas raw materials after the delivery point uses a quality bank or other adjustment methods to account for differences between (i) the quality of the oil and gas raw materials received by the specified individual or legal entity, and (ii) the quality of the oil and gas raw materials supplied by the indicated individual or legal entity, then the unit cost shall be adjusted in such

a way as to fully take into account these discrepancies (but without duplicating any articles included in the calculation of the sales costs).

SECTION 9.5. Sales costs on approved transactions

(a) Definition. For the purpose of determining sales costs on approved transactions, “sales costs” in relation to the sold oil and gas raw materials of any volume and any type shall mean the expenses (including all taxes, duties and similar payments, cost of insurance against losses of oil and gas raw materials, payments in kind in the form of oil and gas raw materials or oil and gas products), and also the uninsured physical losses of oil and gas raw materials (including natural loss during processing) that are incurred downstream from the delivery point in connection with processing and transportation to the point of final sale (in respect of sale to a third party) or to the point where the cost was calculated (in respect of sale to a related party), and the indicated costs and losses: (i) that would be incurred or would be inevitable and would not be insured by any prudent and bona fide person in the framework of a similar bona fide commercial transaction with participation of independent parties, carried out at the same time in the same market in order to arrange processing and transportation to the sale point of these oil and gas resources (in relation to the sale to a third party), or as far as the point in which the calculation of its value was made (in terms of sales to a related party); and (ii) represent part of the actual remuneration paid by the contractor or the losses incurred by it in connection with the indicated processing and transportation. The cost of payment in kind in the form of oil and gas raw materials, as well as their physical losses provided for in the determination of sales costs, is determined with the aim of calculating sales costs based on the value assigned to the indicated oil and gas raw materials in accordance with the above subsections (E) and (F) of section 9.4 (a) (ii) and subsections (E) and (F) of section 9.4 (b) (ii).

(b) calculation of sales costs per unit of output. Sales costs per barrel of liquid hydrocarbons or per thousand cubic meters of gas (“unit sales costs”) for each contract period and for each point of the final sale transactions are determined by adding:

(i) the total amount of costs paid in monetary terms with respect to approved transactions for the contract period,

(ii) the number of units lost multiplied by the unit cost determined in accordance with section 9.4 (a) (ii) (E) for liquid hydrocarbons or in accordance with section 9.4 (b) (ii) (E) for gas, and

(iii) the number of units used for payment in kind multiplied by the unit cost of the output determined in accordance with section 9.4 (a) (ii) (F) for liquid hydrocarbons or in accordance with section 9.4 (b) (ii) (F) for gas, and dividing the sum by the total number of product units sold through final sale transactions, barter transactions or otherwise.

(c) If any other costs that would otherwise be included in the calculation of selling costs relate to the payment by the contractor or its affiliate of the services provided or the cost of their own infrastructure facilities, then these costs shall only be included in the calculation of

selling costs if they do not exceed the rates traditionally prevailing in the international oil and gas industry charged for it as part of similar bona fide commercial transactions involving independent parties. To avoid discrepancies, the sales costs shall not include capital contributions and other payments made as a result of the contractor company having the status of owner, sponsor or shareholder of any property, equipment or facility used in the process of transportation or processing of oil and gas raw materials (or received in exchange for hydrocarbons in the framework of one or several hydrocarbon exchanges) upstream from the point of final sale or another type of their final sale. Through its representatives in the JMC, the contractor shall submit to the authorized body the covering documentation for all costs and losses included in the contractor's calculation of the sales costs, together with sufficiently detailed written rationale of these calculations and the reasons for these costs and losses. If the authorized body through its representatives in the JMC challenges the calculation of the sale costs, then this dispute shall be settled by the Expert as prescribed in Article XXX below. Before the adopted decision in accordance with Article XXX, the said rationale (in the absence of an obvious error) and the calculation of the sales costs made by the contractor shall prevail and shall be used for the purpose of calculating the cost; provided that any calculation of the sales costs is subject to final adjustment in compliance with any decision made in accordance with Article XXX, including interest at the applicable rate, starting from the date the contractor initially determined the cost and up to the date of the indicated amounts adjustment inclusive.

SECTION 9.6. Creation of joint accounts

(a) The Contractor shall open a joint bank account with interest accrual ("Joint Bank Account"), to which the proceeds from the final sale are transferred in the frames of the approved transactions and the challenged transactions carried out by the contractor on behalf of the authorized body, before payment of costs and distribution of these net receipts between the parties concerned.

(b) The Contractor shall submit to JOC the forecast on the expected levels of production, sales, costs and revenues for each contract term. The contractor shall ensure that sufficient funds are available in the joint bank account to pay for costs that are included in or related to the costs of the sale in respect of the relevant transactions, in which the sales costs are expected to exceed the total receipt from the final sale of the respective transactions. In the event of shortage of funds in the joint bank account to cover the projected expenses, the contractor shall send monetary claims to the contracting companies (proportional to the right of each of them to oil and gas raw materials, plus the proportional share of the costs of each contractor related to the right of the authorized body to oil and gas raw materials) to pay for expected expenses, with each contractor required to transfer the indicated amount to the joint bank account. The return of all the funds paid under these requirements shall be carried out (on a proportional basis in the order of their initial payment) from the joint bank account on the last business day of the first month, in which the funds will be available in excess of the

projected needs. To avoid discrepancies, any negative values resulting from the excess of the sum of selling costs in relation to the total receipt from the final sale in approved transactions are set off in the corresponding total values on a cumulative total in relation to the calculation of financial indicators.

(c) In the event that the actual cash proceeds received from the sale to related parties in the framework of approved transactions for any contract term are less than the cost of the oil and gas raw materials used in the frames of such transactions (and established as provided for in this Article IX, until deduction of sales costs), the contractor shall debit to each party its respective share of the difference. In the event that the indicated actual cash proceeds are more than the cost of the indicated oil and gas raw materials, then the contractor shall credit to each party its corresponding share of the difference.

(d) Subject to (i) any adjustments made in respect of the payment or reimbursement of any cash claims or projected deductions necessary to pay the costs of the sale as specified in section 9.6 (b), (ii) any credit or debit offsets, relating to the purchase of oil and gas in the context of the contested transaction provided for in section 9.2 (v), or (iii) any credit or debit offsets required for sales to a related party stipulated in accordance with section 9.6 (c) on the last business day of every month the contractor shall distribute the balance of any funds available in the joint bank account between all parties in proportion to their right to the share of the oil and gas raw materials to which such funds relate. To avoid discrepancies, any adjustment to crediting in accordance with sections 9.2 (v) or 9.6 (c) shall provide for the right of a party to receive funds in the size of the credited amount, while any adjustment to debiting in accordance with sections 9.2 (v) or 9.6 (c) shall be considered a payment in favor of the respective party.

(f) Interest accrued on the joint bank account shall be distributed among the Participants depending on the funds transferred to the account to which this interest is accrued.

SECTION 9.7. Reliable sales flows. (a) Oil and gas raw materials, the transportation and sale of which (or the transportation, processing and sale of which) are carried out in accordance with agreements, deemed by the JOC as commercially viable and reliable, shall be considered to be "Reliable flows". The cost of oil and gas raw materials sold within the final sale as reliable flows shall be determined in accordance with the procedure established in section 9.8.

(b) The final sale of oil and gas raw materials as reliable flows is not governed by the JMC decisions, but is controlled by the party or the Participant holding the ownership right for these oil and gas raw materials, taking into account the right of the competent authority to require the contractor to sell a full or partial share of the oil and gas raw materials owned by the competent authority, in accordance with the terms of section 9.8.

(c) The JMC establishes the procedure for official consideration and approval by the JOC of the issue that the conditions of transportation, processing, exchange, intermediate and final

sale transactions in relation to a particular stream are recognized as relevant to a reliable stream and are no longer regulated by the joint activities procedure.

SECTION 9.8. Joint marketing of reliable flows. (a) Subject to the exit right clauses provided for in section 9.8 (d), the contractor or each contracting company (as the case may be) shall assume responsibility for organizing all transportation, treatment, exchange, transactions of the intermediate and final sale of oil and gas raw materials on behalf of the authorized body as reliable streams in accordance with the provisions of this section 9.8. The contractor or contracting company shall have the right to conclude with the authorized body a separate joint marketing agreement governing the terms and conditions under which the contractor or contracting company will be selling the share of oil and gas raw materials owned by the authorized body, provided that this joint marketing agreement complies with this section 9.8. All the essential terms of this joint sale agreement are set forth in this section 9.8.

(b) Distribution of oil and gas raw materials owned by the authorized body. If the authorized body does not exercise its exit right provided for in section 9.8 (d), then the contractor or each contracting company (as the case may be) shall include a proportionate share of the oil and gas raw materials belonging to the authorized body in each transaction organized by the contractor or contracting company. All direct costs and expenses (as well as internal costs, but only provided they comply with the rules set forth below for transactions with affiliated persons) incurred in connection with such a transaction, as well as proceeds from it, shall also be distributed between the contractor or contracting company and the authorized body on a non-discriminatory and proportional basis.

(c) Authorized activity of the contractor. In cases where the contractor or contractor company concludes agreements for the transportation, processing, exchange, intermediate and final sale of oil and gas raw materials on its own behalf or on behalf of the authorized body, the contractor or contractor company shall be entitled to make any decision regarding the authorized body's share of the oil and gas raw materials, in the same way as a contractor or contracting company has the right to make any decision regarding operations with its own share ("permitted activities"). Without prejudice to the general nature of the above proposal, the parties agreed that the contractor or contracting company has the right to carry out the following specific activities related to marketing:

(i) carry out authorized activities through affiliated persons, only if the operation carried out through an affiliated person:

(A) does not entail a decrease in the actual amount received by the authorized body below the fair market price, and

(B) if the indicated costs do not exceed the rates traditionally prevailing in the international oil and gas industry established in this respect as part of bona fide commercial transactions between independent Participants.

If the authorized body reasonably considers that the price charged by the affiliate does not correspond to the price of similar services, which a prudent and bona fide operator would have agreed to within bona fide commercial transactions between independent Participants in this market, the contractor and the authorized body shall meet with the purpose of agreeing as prescribed in section 9.9 (a) (ii), and subject to section 9.9 (1), on the corresponding price for independent third parties, which could be taken as the basis for determining the amount of the cost of services;

(ii) carry out cash sales or product exchanges or enter into long-term supply contracts, provided that the contractor or contracting company notify the authorized body within thirty days of any obligations with a validity term of more than one year and enable it to exercise the exit right provided for in section 9.8 (d);

(iii) enter into hedging agreements, deemed by the contractor or contracting company as prudent, provided that the indicated agreements are for oil and gas raw materials owned by the contractor or contracting company, and for oil and gas raw materials owned by the authorized body on a non-discriminatory basis. Hedge accounting shall be carried out separately, and the contractor or contractor company shall immediately after the end of the contract term file to the authorized body the appropriate accounting report for the contract period. The authorized body shall be entitled to decide at any time on termination by the contractor or contractor company of the conclusion of further hedging transactions for oil and gas raw materials owned by the authorized body . No provisions of this section shall be construed as requiring any contractor company to enter into hedging agreements solely with respect to oil and gas or any particular part of the oil and gas raw materials.

In carrying out the permitted activities, the contractor or contracting company shall constantly act as a prudent and bona fide company with experience in the sale of oil and gas raw materials and oil and gas products.

(d) Exit Right. The authorized body shall have the right to withdraw and refuse to participate in the joint sale of oil and gas raw materials obtained for reliable flows on each individual stream, with the proviso that the indicated exit right can only be exercised prospectively and is governed by the terms of any existing contractual obligations, assumed in accordance with this article. To avoid inconsistencies, it shall be acknowledged by the parties that refusal to jointly sell oil and gas raw materials obtained for any reliable flow does not exempt the contractor from its obligations in accordance with section 3.10.

SECTION 9.9. Calculation of the cost of oil and gas in reliable flows.

The cost of oil and gas raw materials marketed within final sale transactions through a reliable flow shall be determined monthly at the “Delivery Point” as provided for in this Section 9.9.

(a) Calculation of selling costs for reliable flows

(i) Definition. Subject to further provisions of this Section 9.9, “Sale Costs”, with respect to reliable flows in relation to oil and gas raw materials of any volume and any type marketed

within a sale transaction to a third party or a sale transaction to a related party, mean the costs that are fully and necessarily incurred downstream from the delivery point in connection with processing, transportation to the sale point and (except for the case of sale to a related party) sales through third-party commercial agents, and these costs:

(A) would be fully and necessarily incurred by a prudent and bona fide operator as part of a bona fide commercial transaction involving independent parties at the same time and under the same circumstances with the aim of organizing the processing, transportation to the sale point and sale of this oil and gas raw material; and

(B) are a part of the actual remuneration paid for said processing, transportation and marketing.

Except as otherwise provided in the provisions below, the indicated costs, taken into account when calculating sales costs, may include, inter alia, the following: taxes and duties paid in countries other than the republic, tariffs, costs, expenses, fees, deductions, terminal and port charges, operating fees, storage fees, expenses associated with payments in the form of equipment, services or other materials, as well as payments in kind in the form of petroleum products, charges for the provided throughput capacity, insurance fees. To avoid discrepancies the sales costs shall not include capital contributions and other payments made as a result of the contractor having the status of the owner, sponsor or shareholder of any asset, equipment or structure used in the process of transportation or processing of oil and gas raw materials (or received in exchange for hydrocarbons within one or several hydrocarbon exchanges) upstream from the final sale point or another type of their final sale.

(ii) Services of affiliated persons. If any costs that would otherwise be included in the calculation of sales costs are related to the services provided by the contractor or its affiliated person, or to infrastructure facilities belonging to them, then such costs shall be included in the calculation of sales costs only to the extent in which they do not exceed the general and prevailing tariffs for the provision of services and the use of infrastructure facilities levied in the global oil and gas industry in bona fide commercial transactions between independent third parties. If the authorized body reasonably considers that the price charged by the affiliated person does not reflect the price at which the prudent and bona fide operator would have agreed to in a bona fide commercial transaction with an independent party conducted to provide the same services in the market in question, then the contractor and the authorized body must meet to agree as prescribed by section 9.9 (a), and subject to the requirements of section 9.9 (1), upon the appropriate transaction price between independent third parties, which will be applied in determining the costs of such services, which may be included in the calculation of the sales costs.

(iii) Excluded costs. From the calculation of sales costs, all losses of the share of the contractor, each contractor company and the authorized body shall be excluded after passing the delivery point, and the contractor, each contracting company and the authorized body shall explicitly assume all the risk of these losses.

(iv) Split of costs. If any costs to be included in the calculation of sales costs cannot be separately attributed to any specific volume of oil and gas raw materials for which such a calculation is made, then such costs shall be split in a proportional amount, taking into account the relative calorific value of the corresponding oil and gas raw materials, measured in BTU and defined at the first measurement point after the point in which these costs were incurred.

The contractor or each contracting company shall open a joint bank account (together with the authorized body), to which the proceeds from the final sale of oil and gas raw materials received from reliable flows and jointly sold before payment of costs and deductions to the parties are transferred. The contractor shall submit to JOC the forecast of the expected levels of production, sales, costs and revenues for each contract term. With the consent of the JOC, the contractor shall ensure that sufficient funds are available on joint bank account to pay the costs attributable to sales costs for any contract term in which the sales costs are expected to exceed the total revenue from such final sale. To avoid inconsistencies, any negative values resulting from the excess of the sum of sales costs in relation to the total revenue from the final sale are set off in the corresponding total values on an accrual basis for the calculation of financial indicators and taxes.

(b) Calculation of the cost of liquid hydrocarbons. Subject to further provisions of this Section 9.9, the cost per unit volume of liquid hydrocarbons of any category in any month is the weighted average (by volume) value of:

(i) actual prices per unit of the volume in the final sale, which is a sale to third parties (if there is such a sale) of liquid hydrocarbons of this category during the given month; and

(ii) for all final sale transactions that constitute a sale to related parties (if there is such a sale) of liquid hydrocarbons of this category, the arithmetic average of prices per unit volume of liquid hydrocarbons of this category for a five-day (5 days) period, the central date of which shall be the date of the bill of lading for the given batch, on FOB terms, representative export ports published in the Platts Oilgram (or in another directory of market prices, internationally recognized and selected with the consent of the UK) as amended by quality, grade, volume and other special circumstances (if any),

net of sales costs assigned to this category of liquid hydrocarbons in the given month.

(c) Calculation of the cost of gas. Calculation of the cost of gas shall be carried out in the following order:

(i) the cost of gas sold by the gas project is determined on the terms of a sampling agreement between the contractor, the authorized body and sponsors of the gas project;

(ii) the cost of gas sold on any market other than the European one (with the exception of the former CMEA countries) shall be determined in accordance with the calculation methodology adopted by the JMC before the JOC decides that this gas flow is a reliable flow; and

(iii) the cost of gas obtained for the purpose of selling in Europe (with the exception of the former CMEA countries) is determined in the following order: subject to further provisions of this Section 9.9, the cost per unit volume of gas for any month will be the price of the volume unit of gas for the given month, determined as prescribed below, minus the sales costs of the volume unit attributable to the given volume of gas for the given month. In relation to this section, the "Price" of a unit volume of gas for any month will be equal to the weighted average (by volume) value:

(A) of actual prices per unit volume in the final sale, which is a sale to third parties (if there is such a sale) of gas in the given month, as provided for by contracts governing such a sale, provided that if the authority is able to demonstrate that the price of gas indicated in any contract for sale to third parties is below the fair market price for the sale of gas in the relevant market, then the unit price of this volume of gas will be determined as specified in subsection (ii) below; and under the further condition that before the contractor or any contracting company concludes a gas sale contract proposed to a third party, the contractor and the authorized body may (and at the reasonable request of the contractor - should) meet in order to discuss in good faith whether the price offered under this contract, is underestimated compared to the fair market price for the sales market in question; and

(B) in respect of any gas sales to related parties during the month, the price per unit volume is determined by the following formula and is calculated separately on each sale transaction:

$$P = (\text{GBP}) / (9769.2 \times \text{Ex}) + A,$$

where

P = Price per unit volume of gas in the given month;

GBP = "Grenzuebergangspreis" (or "Price on German border, German Border Price" in German marks ("DM") per thousand cubic meters of gas delivered in the given month, in accordance with the monthly publication of the German Federal Ministry of Economics, in its Tagesnachrichten (or other directory of market prices, internationally recognized and selected by consent of the parties);

9769.2 = coefficient agreed on by the parties for converting the price at the German border, which is one thousand cubic meters, into the price of gas per kilowatt-hour, assuming that the calorific value of one cubic meter of gas is 35.17 megajoules, where "megajoule" is equal to 1,000,000 joules, and the value of "joule" is specified in the standard ISO 1000-1981 (E);

Ex = Average official exchange rate on the Frankfurt Exchange for the exchange of DM to US dollars in the given month (expressed as the rate of DM to the US dollar) published in the Deutschebank monthly report or (if such a rate is not published) - the average daily exchange rate for the exchange of DM to US dollars in the given month (expressed as the rate of DM to the US dollar) published in another publication, internationally recognized and selected by consent of the parties; and

A = corresponding adjustment to the price at the German border, expressed as a positive number in case of a surcharge and a negative number in case of a discount, which is determined as specified in section 9.9 (d);

If the “A” value is equal to zero, (i) if and until the contractor or the authorized body can demonstrate as specified in section 9.9 (d) that in a bona fide gas sale to an independent third party in the market in question, a surcharge or discount to the price would be required at the German border, and (ii) if and until the relevant value of the surcharge or discount is agreed upon by the parties or confirmed by the Expert in accordance with this Agreement.

(d) Determination of surcharge or discount. Applicable to the formula in Section 9.9 (c) (iii) (B), the only reasons for introducing a price surcharge or discount on the price at the German border shall be:

(i) sales to a country other than Germany, in which gas prices differ significantly from prices in Germany;

(ii) sales to the market, which generally differs from the sales market, on the basis of statistical indicators of which the price at the German border is determined;

(iii) a contract in which the formula for calculating the price increase differs over time significantly from the norms adopted in contracts for gas import into Germany;

(iv) a contract in which the load factor and (or) conditions of supply and forfeit are different from the norms adopted in contracts for the import of gas into Germany;

(v) a contract containing a number of other significant contractual terms that differ significantly from the norms adopted in contracts for the import of gas into Germany;

(vi) a contract whose validity term differs significantly from the norms adopted in most contracts for gas import into Germany;

(vii) gas quality requirements are significantly different from the norms adopted in contracts for gas import into Germany; or

(viii) the conditions on the possibility of temporary suspension of supplies differ significantly from the norms adopted in contracts for gas import into Germany;

provided that the features listed in subsections (i) - (viii) above are such that they would justify the price surcharge or discount on a typical open market transaction, in good faith agreed upon between independent third parties. Subject to further provisions of this Section 9.9, any surcharges or discounts on the price at the German border determined by the formula given in Section 9.9 (c) (iii) (B) in respect of any gas sales contract to which this formula applies remain unchanged throughout the duration of such a contract for the gas sale.

(e) Information provision on contracts, etc. As soon as practicable after a contractor or any contracting company or authorized body has concluded a contract for the sale of gas or liquid hydrocarbons or for the provision of services, the cost of which will be included in the calculation of sales costs, whether for operations relating to reliable flows or to joint activities, the contractor, contracting company or authorized body shall submit to the JMC (and to the authorized body, if required) a copy of the documentation for this transaction together with all

other materials and information related to compensation paid directly or indirectly to or received by any party in connection with this transaction. In the case of gas sales contracts to which the formula in Section 9.9 (c) (iii) (B) applies, the JMC shall hold a meeting as soon as practicable to discuss the appropriate value of the surcharge or discount relative to the price at the German border (if required).

(f) Excluded Transactions. As applied to this article, the authorized body shall have the right to challenge the accounting of the factors listed below when calculating the unit cost of any volume of liquid hydrocarbons, gas or other hydrocarbon products under this Agreement (including, inter alia, the calculation of sales costs), provided that these factors are not included in the conditions of independent parties' transactions and do not reflect these conditions:

(i) the sale of oil and gas raw materials in the FSU in accordance with contracts not approved by the competent authority or JMC prior to their conclusion;

(ii) the costs of processing and transportation of oil and gas raw materials in the FSU in accordance with contracts not approved by the authorized body prior to their conclusion (in each case, such approval should not be refused groundlessly);

(iii) sales to third parties in which the cash sale price is not the only economic reimbursement directly or indirectly received by the contractor, contractor company or any of their respective affiliates; and

(iv) the costs of processing and transportation of oil and gas raw materials in accordance with the arrangements on which the contractor or any of its respective affiliates directly or indirectly receive services other than (A) the processing or transportation services in connection with which such costs were incurred, or pay any refund other than (B) payment of such costs.

The contractor shall intermittently submit to the competent authority, upon request, such information that the competent authority may reasonably require to make an informed decision on each of the above issues. Disputes regarding any of the above types of reimbursement shall be settled through the examination provided for in accordance with Article XXX.

(g) Determination of intermediate cost and retrospective recalculation. In the event that the cost of any volume of liquid hydrocarbons of any category (including, inter alia, calculation of sales costs) during any month cannot be fully and finally determined in accordance with this section 9.9 before such determination is required for any purpose, stipulated by this Agreement or any accompanying document, for all such purposes, a determination of the intermediate cost shall be based on the cost of liquid hydrocarbons of this category over the previous month or (in the absence of values for the previous month) based on the values agreed upon between the contractor and the authorized body. After a full and final determination of the cost of liquid hydrocarbons of the corresponding category for any month, a corresponding recalculation shall be performed of the distribution between the

parties and all other indicators for which the determination of the intermediate cost was previously applied.

(h) Units of measure. Each component of the calculation of the cost of liquid hydrocarbons and other hydrocarbon products under this Agreement shall be measured in US dollars per barrel. Each component of calculation of the cost of gas under this Agreement shall be expressed in US dollars per 1,000 cubic meters. If any component of any such calculation of the cost of oil and gas raw materials of any category under this Agreement (including, without limitation, any costs that must be taken into account when calculating sales costs) is not expressed in the relevant or appropriate units, then this component shall be converted to the appropriate units on the basis indicated in this document, or, if such a basis is not indicated, on the basis of the general practices of such recounts used in the world oil industry.

(i) Calculation of the cost by categories of oil and gas raw materials. If certain categories of liquid hydrocarbons, gas or other hydrocarbon products are offered for sale separately and at different prices, then the terms of this article and article VIII shall apply separately to each such category.

(j) Grouping by quality, etc. If an individual or legal entity engaged in the transportation or processing of oil and gas raw materials, on the way from the delivery point, informs the contractor or any of its affiliates about the discrepancies between (A) the quality of the oil and gas raw materials obtained by such an individual or legal entity either from the contractor or any of its affiliates, or on their behalf, and (B) the quality of the oil and gas raw materials delivered by such an individual or legal entity to the address or name of the contractor or any of its affiliate in which differences are determined by quality, grouping or other recalculation, then the cost of such oil and gas raw materials in accordance with this article shall be adjusted taking full account of this circumstance.

(k) Periodic adjustments of the terms for calculating the price and cost of gas. Notwithstanding the foregoing provisions of this section 9.9:

(i) three (3) years after the start of gas supplies under any gas sales contract to which the formula in Section 9.9 (c) (iii) (B) applies, and every three years thereafter throughout the validity term of such a contract, the JMC shall consider the values of the surcharge or discount (if any) with respect to the price at the German border previously agreed for such a contract. If the JMC can establish the existence of significant changes in the premises taken into account when determining the value of the surcharge or discount, the value of the surcharge or discount (as the case may be) shall be adjusted accordingly. The burden of proof of the need to adjust the surcharge or discount rests with the party that claims to introduce such an adjustment.

(ii) At the time when the gas sale contract is proposed to the competent authority in accordance with section 9.9 (e), and also at eighteen-month intervals thereafter, if the contractor or the competent authority can demonstrate in a form acceptable to the other party (

or in the form, acceptable to the Expert in accordance with Section 30.2) that the gas price can be more accurately determined based on information on import prices published in the country where this gas is exported (“Local data on import prices”) than based on the price in Germany, then when calculating the cost of gas exported to this country for sale through sale to related parties, instead of the price at the German border, local data on import prices shall be applied, and when calculating the price of such gas in accordance with section 9.9 (c) and the relevant provisions of this Section 9.9, all references to “Price on the German Border”, “Germany”, “German” and “Deutsche Mark” and import conditions relating to import contracts in Germany shall be replaced accordingly with references to “Local data on import prices, ” “respective country,” “given country,” “local currency,” etc., and all the currency conversion factors, surcharge and discount calculations and other elements of the cost calculation included in these provisions must be changed, suited to respective country and respective market; provided that, in order to ensure applicability of the provisions of this Section 9.9 (k) (ii), the other party (or the Expert pursuant to Section 30.2) has to ensure that basically all of the following conditions are satisfied:

(A) statistics on the import prices in question shall be published at least quarterly by a well-known organization in the respective country;

(B) proposed local data on import prices are published and made publicly available no later than three months upon expiry of the contract term in question;

(C) proposed local data on import prices are generally accepted in the global gas industry and provide an accurate picture of the cost of gas imported into a given country;

(D) annual average gas import is no more than 25% of the total volume of gas imports to a given country;

(E) the cost of gas supplied under the relevant import contract does not significantly differ from the average cost of gas imported to this market (given its quality, terms of contracts and other relevant factors); and

(F) gas imported into the given country is generally paid for in hard currency.

(iii) Every nine years after the effective date, the parties shall revise the provisions of this Agreement for calculating the cost of gas. If the contractor or the authorized body can demonstrate in a form acceptable to the other party (or in a form acceptable to the Expert in accordance with Section 30.2) that:

(A) the current method of calculating the cost of gas does not provide a fair reflection of the cost of the given gas; and (B) there is an alternative method of calculating the cost of gas that more fairly reflects the cost of the gas, the provisions on calculating the cost and price of gas under this Agreement shall be amended in the way to reflect such an alternative method of calculating the cost.

(iv) If any of the published information sources referred to in this article ceases to be published or becomes unavailable for another reason, the contractor and the authorized body shall meet to agree on a replacement source of information that shall be as accurate as the

source that has become unavailable. If the contractor and the competent authority fail to reach an agreement on such a replacement of the information source within 3 months from the first meeting on this provision, then the question of choosing a replacement information source shall be referred for resolution by the Expert in accordance with section 30.2.

(1) Qualification of disputes. Any disagreement between the parties regarding calculation of the value of any volume or type of oil and gas raw materials (including, inter alia, any disagreement on the calculation of selling costs or any costs and expenses that need to be taken into account or excluded from consideration in these calculations) shall be referred for expert examination in accordance with Section 30.2 and applicable provisions of this Section 9.9, provided that:

(i) in making its decision on whether the price indicated in the contract for sale to third parties is a fair market price for the sale of the corresponding type of oil and gas raw materials in the market in question, the Expert shall factor in all the conditions of the sales contract and shall not:

(A) disqualify any selling price declared by the seller upon sale to a third party, unless (x) that price differs by more than 5% from the fair market price in the market in question, or (y) there is evidence (other than just a deviation from fair market price) that the sale in question is made with payment or receipt of remuneration other than the selling price stated by the seller, or that the transaction was partially or fully affected by such types of remuneration that differ from general economic incentives applied in international gas sales transactions concluded with independent third parties; or

(B) in the case of contracts for the gas sale to the contractor's affiliates, adjust the surcharge or discount to the price at the German border proposed by the contractor, unless the price at the German border with addition of the proposed surcharge or minus the proposed discount differs from the fair market price for the market in question by more than 5%;

(ii) in any dispute regarding costs that are included or proposed to be included in the calculation of the sales costs, the competent authority must provide evidence acceptable to the Expert that the cost element in question does not meet the requirements of section 9.9 (a); and

(iii) in the event of a dispute regarding the made or proposed replacement of prices on the German border with local data on import price in accordance with section 9.9 (k) (ii):

(A) the price at the German border shall be applied until the Expert has made its decision; and

(B) the price at the German border shall not be replaced by local import price data unless the Expert makes sure that all the conditions specified in section 9.9 (k) (ii) are basically satisfied.

SECTION 9.10. National contingencies and local supply commitments. No provisions in this article IX shall affect the rights of the authorized body under article XI.

SECTION 9.11. Amendments to Article IX. The parties have agreed that provisions of Article IX may be amended by mutual written consent of the parties, provided that sections of

Article IX amended in accordance with the written agreement on the amendment are specifically referred to in the indicated amendments.

SECTION 9.12. Sales to European Union countries. Any final sale transactions carried out in the countries of the European Union (EU), either through joint activities or through reliable flows, shall be carried out in accordance with applicable EU law. To the extent that the fourth Directorate General ("Competition") of the EU Competition Commission objects to conducting by the parties of joint sales in the EU, each contracting company shall separately receive and market (i) its share of oil and gas and (ii) its proportional share of oil and gas raw materials owned by the authorized body. Such separate sales in the EU of oil and gas raw materials owned by the authorized body shall be carried out by each contracting company in accordance with the terms of section 9.8.

SECTION 9.13. Sales to a small refinery. Within three years after the effective date, the contractor and the authorized body shall proportionally provide 400,000 tons of liquid hydrocarbons per year to the small refinery operator at the price of 40 USD per ton plus VAT, if applicable. If the small oil refinery operator does not timely pay for the specified oil and gas raw materials in freely transferable dollars, then the obligation to provide this oil and gas raw material shall be suspended until all the amounts due are paid in full.

ARTICLE XXX. "Arbitrage" of the Final Production Sharing Agreement for the contractual section of the Karachaganak oil and gas condensate field dated November 18, 1997

SECTION 30.1. Arbitration in accordance with the UNCITRAL rules. Excepting provisions of Section 30.2, all disputes, discrepancies, disagreements or claims between any parties to this Agreement arising from or in connection with this Agreement, its execution, breaching, termination, legal force and interpretation shall be resolved (subject to the provisions below) through negotiations between the parties, and in the absence of such a settlement within 45 days from the date of the written application for the conduct of these negotiations, they are subject to an exceptional, definitive and final settlement in the arbitration court in Stockholm (Sweden) in accordance with the current Arbitration Rules of the UN Commission on International Trade Law (UNCITRAL) consisting of three arbitrators, one of whom is appointed by the contractor, one by the republic, and the third by agreement between the two arbitrators, appointed in the indicated order by the contractor and the republic, or (in the absence of such agreement) by the Secretary General of the Permanent Arbitration Court in The Hague. As applicable to these Rules, the party or parties on whose initiative the dispute (s) are referred to arbitration shall be termed as the plaintiff in the arbitration, and the party or parties against which the arbitration is brought shall be termed as the defendant in the arbitration. The languages of arbitration shall be Russian and English. Any decision made in accordance with this Agreement shall be final and binding on the parties and, if necessary, can be enforced in a judicial proceeding by any court of law or other authorized body, but, with the exception of the above, all rights of appeal and taking legal

actions in any court shall be excluded hereby in relation to any arbitration conducted in accordance with this Agreement and any decision made therein. The parties shall acknowledge and accept the fact that this Agreement is a commercial transaction, and that none of its parties is entitled to declare its state immunity in any state in relation to: (i) any arbitration or its decision; (ii) any proceeding to enforce the said decision; and (iii) any enforcement of the decision in respect of property and assets used as commercial. Each party in the arbitration stipulated by this regulation shall pay its expenses and costs associated with it, and pay equally with the other parties to the arbitral proceedings the amount of fees charged by the arbitration court, and in both cases only if the decision of the arbitration court does not provide otherwise.

SECTION 30.2. Expertise. (a) In cases where, in accordance with any explicit provision of this Agreement or an accompanying document, the disputes or disagreements between any of the parties to this Agreement are subject to examination in accordance with this section 30.2, then these disputes or disagreements shall not be referred to arbitration in accordance with Section 30.1, but upon written request, any of the indicated parties shall be referred to an independent person with relevant experience and appointed by agreement of interested parties , but in the absence of such coordination within thirty (30) calendar days from the date of filing of the written request, appointed by the current chairman of the International Court of Arbitration at the International Chamber of Commerce.

(b) The person or firm (the “Expert”) appointed in accordance with the above as an Expert , but not an arbitrator, shall independently determine the order of his actions and, with due diligence and promptness and conducting the investigation necessary from his viewpoint, shall be required to resolve the dispute or disagreement and issue a written conclusion containing his opinion, and this conclusion shall be final and binding on these parties. The parties to this agreement must assist the Expert in obtaining, without exception, all the information necessary for him in connection with the indicated conclusion. Both the contractor and the authorized body shall have the right to submit materials to the Expert for examination on their own behalf.

(c) Notwithstanding the provisions of subsection (b) above, the Expert shall be required to follow any directions, instructions and recommendations provided for by the relevant provisions of this Agreement or related documents to which this section applies.

(d) Any disputes between the parties referred to the Expert shall be resolved by examination performed by the indicated Expert within 60 days from the documents receipt date.

(e) Any fees or expenses of the Expert appointed in accordance with this section shall be paid in the following order: (i) in respect of the first appeal to the Expert during any contract year, the specified fees or expenses shall be paid by the contractor and shall be reimbursed in accordance with the procedure provided for in Article VIII, and (ii) in respect of all subsequent appeals during the given contract year, the indicated amounts of payments or

expenses shall be paid equally by the Participants and shall not be reimbursed for the costs provided for in Article VIII.

SECTION 30.3. Retroactive application of conclusions and decisions. If it is necessary to put into effect the terms of this Agreement and related documents and the rights of the parties provided therein, any conclusions, definitions and decisions made in accordance with this Article shall be retroactive at the time of the occurrence of the circumstances that caused the relevant disputes or disagreements between the parties. The arbitrator or the Expert (as the case may be) shall have the right to award interest to any party in whose favor an opinion, conclusion or decision was made.