This Risk Matrix has been developed with the information made available by the Sponsor, and reports from Independent International Market Consultants, and other available data. The risk assessment is based on desk review of the project documents, due diligence mission and discussions with the sponsor.

Type of Risk	Description of Risk	Risk Mitigation	Risk Rating	Remarks
Country Risks				
Sovereign Risk	Country's general risk perception	• Involvement of multilateral (ADB, MIGA and IDB) in the transaction. • ADB and MIGA is providing PRG cover for the commercial banks involved in this transaction. ADB and MIGA will be signing an agreement with Govt of Uzbekistan which binds the country from taking action which invokes a political risk event. • IDB also receive a no objection letter from GOU for this financing. • GOU is committed to gas sector development.	Average	None
Instability, Terrorism, War and Civil Commotion	Internal political instability, political violence, terrorism, war, etc.	• IDB will also seek to leverage the existing good relationship between IDB and the GOU.	Average	None
	Instability in / with neighbouring countries; also exposed to political sensitivities with neighbouring Russia.	• The project sponsor, 'OAO' LUKOIL, is a strong, reputed oil & gas company from Russia. • To date LULOIL is the largest foreign direct investor in Uzbekistan. • The current off-taker, Gazprom, is also a Russian monopoly. • Therefore, the project is expected to be immune to political sensitivities with Russia.		
	Social dislocation and disorder	• Land allocation for the project did not trigger any physical or economic displacement. • The project itself is located in an uninhabited desert zone.		

Expropriation of Land / Assets	The Uzbek Local Counsel (Leges Advokat) has defined expropriation to include: confiscation, nationalization, eviction and requisition.	• According to Uzbek Law, both 'eviction' and 'confiscation' arise following a breach by the owner of an obligation in respect of the relevant property. Therefore, these acts can occur only if LUKOIL has breached its obligations under the PSA. Otherwise, the GOU cannot deliberately effect these acts. • With regard to "nationalization", Uzbek law currently provides that investments and assets of investors, including those of foreign investors, shall not be subject to nationalisation. Any nationalisation of the Investor's assets in breach of the laws of the Republic of Uzbekistan would therefore be in breach of the PSA. • With regards to "requisition", the Local Counsel has defined it to be the only form of expropriation which can be made legally since it can be carried out upon a decision of the Cabinet of Ministers. A requisition which is performed following such a decision would not therefore be in breach of the PSA.	Low - Average	• The Project has the full support of the GoU. And therefore it is unlikely that requisition can happen.
Force Majeure and Expropriation	Under the PSA, expropriation is listed expressly as an event falling within the definition of "Force Majeure". The elements of expropriation concerned here are mainly nationalisation of assets and requisition.	• As reported in the legal due diligence process, for the Government of Uzbekistan to claim Force Majeure in connection with expropriation, it would have to show that the event is outside of its control. Consequently, there is limited room for the GOU to prove force majeure since the nationalisation of assets requires a legislative act to be effected, and requisition can be authorised only by the Cabinet of Ministers.	Low	none
Currency Transfer & Convertibility	Restriction on foreign currency transfer and/or local currency	• The PSA allows the process to open off shore and on shore bank accounts and the project	Low – Average	None

	conversion	company has been operating such accounts since 2004. • The revenue from the project are in USD and the sales proceeds are deposited into an offshore USD bank account to cover payment for debt service, operating expense and cash calls.		
Macroeconomic Risks				
Inflation	Inflation leads to higher operating costs	• Sensitivity analysis of the model confirms that the project is not sensitive to inflation.	Low	None
Interest rates	Increasing interest rates could affect the Company's ability to repay its debt	• Sensitivity analysis on the Financial Model indicates that the interest rates have limited impact on the financial viability of the model and project Company is able to repay its debt in case of increase in interest rates. • Base case financial model assumes margin of US$ Libor + PRG Fee (1.75%) + Step Up Margin (in the range of 4-5%).	Low	None
Currency Exchange	The currency in which the project costs are being incurred might appreciate during construction.	• Foreign exchange risk is naturally hedged.	Low	None
Legal and Regulatory Risks				
Enforceability of the Agreements	The Financing and Security Documents may not be enforceable under Uzbek Law	• The finance agreements and will be under UK law and the place of arbitration will be London. This give comfort to lenders since enforceability is made out of the control of the Uzbek law and authorities. • The security documents will be under Uzbek Law. As such, they will be enforced in accordance with Uzbek Law. The Local Counsel has confirmed that the Uzbek Law is not restrictive for enforcing the security documents.	Low	None

Change of Law	Changes which may affect the enforceability of the Financing and Security Documents (including the PSA)	• Detailed legal review on Uzbek law has been done by the Local Legal Counsel 'LEGES ADVOKAT'. • A detailed legal opinion from external legal advisor, satisfactory to the lenders, is a conditions precedent for our financing. • It will be ensured that the Project is in compliance with local laws and regulations and lenders have sufficient ability to take and enforce security under the local legal framework.	Average	
	Changes in environmental laws which may affect the ability of the Project Company to operate	• The EIA report was prepared and submitted by LOU and was approved by the relevant authority in 2007. • During construction and operations phase of the project, external experts will be hired to verify monitoring information and assess the project company's environmental and social performance with respect to implementation of the environmental management plan for both Kandym and Khausak-Shady fields.	Low	
Regulator	Excessive supervisory discretion of the Regulator because of lack of experience	• Risk related to the excessive supervisory discretion of the Regulator because of lack of experience is low since International oil and gas companies are currently operating in the country. However, through a Direct Agreement, the GOU will provide some undertakings to the lenders to the effect of limiting its regulatory powers.	Average	None
PSA	PSA Amendment/termination. Absence of Contractual remedies in case of termination	• The PSA contain a stability clause providing that its terms shall remain in force during the whole period of its validity. All amendments to the PSA	Low	None

	of the PSA for reasons other than Material Breach	shall be mutually agreed between the parties. This limits rooms for the GOU to affect the rights of the Borrower.In case of termination of the PSA for Material Breach, the Lenders will require a direct agreement with the GOU pursuant to which an additional cure period for any material breach of the PSA and associated licence could be cured and/ or an undertaking in the financing documents by LUKOIL not to terminate the PSA or associated licence.		
Sponsors Risks				
Commitment	Commitment to the project	• Since inception, Khauzak-Shady-Kandym Gas Fields Development Project has been funded by the project company through equity, non-interest bearing operating line from shareholder and LOU's own cash proceeds from the hydrocarbon operations. • The main sponsor invested over US$ 654 mln so far in Phase 1: Khauzak-Shady being the development costs and operating expenses during the period between 2004 and 2010. • The parent company, OAO LUKOIL, is also providing a corporate guarantee for the off take risk and gas processing & transportation risk. • One of the strong subsidiaries of 'OAO' LUKOIL, LUKOIL Overseas Holding Ltd., is providing a committed line of credit for our facility to make sure that the project company is able to meet the cash calls for the Kandym and Khauzak-Shady development.	Low	None
Experience	Required experience to successfully implement the	• Sponsor possesses substantial expertise and experience in oil and gas industry.	Low	None

	project	• It's is one of the world's leading vertically integrated oil & gas companies. • LUKOIL is the second largest public company (next to ExxonMobil) in terms of global proven oil and gas reserves. • Its main activities are exploration and production of oil & gas, production of petroleum products and petrochemicals, and marketing of these outputs. • The main production region for LUKOIL Group is Western Siberia. LUKOIL is carrying out international exploration and production projects in Kazakhstan, Egypt, Azerbaijan, Uzbekistan, Saudi Arabia, Colombia, Venezuela, Cote d'Ivoire, Ghana and Iraq.		
Financial / credit standing	Ability to meet any unforeseen obligations	• Sponsor has impressive financials. • The parent company, 'OAO' LUKOIL, maintains its long term foreign issuer ratings from Moody's ("Baa2": Stable) and Standard & Poor's ("BBB-": Stable) at investment grades as of 25th of Nov 2010.	Low	None
Offtaker / Market Risks				
Payment obligations / Competition	Offtaker's financial and credit standing / ability to meet payment obligations Offtaker's willingness to buy energy from the Project Company	• Sale of gas is carried out within the frame work agreed between the Govt of Uzbekistan and JSC Gazprom on an annual basis. • According to the PSA, the project company established a 100% subsidiary, LUKOIL Overseas Supply and Service Limited ("LOST"), which acts as the Marketing Company. • LOST enters into a 1 year Commission Agreement with JSC Uztransgaz (UTA) and the Gas Sales Contract was executed and signed on	Average	None

		December 28, 2009 between JSC Uztransgaz (UTA) and LLC Gazprom Export ("Buyer"). • UTA is a 100% subsidiary of NHC Uzbekneftegaz and centrally carries sale of 100% volume of export gas from Uzbekistan. This ensures that price of gas carried from Khauzak-Shady field cannot be lower than the average price of all other gas exported by GOU. • UTA entered into the 1-year off-take contract with Gazprom Export Ltd. (a 100% subsidiary of the Russian gas monopoly JSC "Gazprom") for sales of up to 4.25 bcm of gas annually and it expired on 31 December 2010. A new contract is currently being negotiated which will be effective from 1 January 2011. • Gazprom has a current rating of BBB (stable outlook) from Standard&Poor. Russia also has the same (BBB) sovereign rating. • A new pipeline connecting Uzbek Gas to China is now operational. During our last meeting with GOU, lenders were informed that first Uzbek Gas will to go to China by Q2, 2011. • It has been also agreed in the term sheet that in case of an off take event, the lenders will benefit from a Corporate Guarantee from 'OAO' LUKOIL (the parent company). The off take event is defined as follows: (a) non-renewal or termination of the Gazprom Off-take Contract, (b) any breach of an Off-take Contract, (c) the Off-take Contract provides for the sale of gas volumes from the Khauzak-Shady Project representing less than 95% of the sale volumes		

		of gas approved in the latest Banking Case; (d) in any calendar quarter, the average gas price for gas volumes sold is less than 95% of the price approved in the latest Banking Case for that quarter, (e) delay or failure by Uztransgaz to make payment when due under any Agency Agreement. Therefore, to mitigate the volume risk, price risk, off take renewal risk, payment risk of Uztransgaz, the lenders are benefitting from a Corporate Guarantee from 'OAO' LUKOIL (an investment grade rated company).		
Pricing	Price does not allow to service debt properly	• The current gas price is determined quarterly based on the formula agreed in the Gazprom contract referring to the average monthly prices of gas oil and fuel oil at the European markets. • The base case financial model calculates the future price of gas based on this formula and takes 75% of that price as the base case price. • The base case gas prices included in the model go from USD 146/mcm in 2011 up to USD 172/mcm in 2017. This price range is also well within the price range suggested by the Gas Market Study Consultant (HIS CERA). • Also, in general, competitiveness of the LOU's gas is not a relevant concept in this particular project as LOU will always sell its gas to recover its sunk costs given the investment made. • It has been also agreed in the term sheet that in case of an off take event, the lenders will benefit from a Corporate Guarantee from 'OAO' LUKOIL. The off take event is defined in the section above.	Average	None

Demand	Low demand for gas	• Although the European gas market faces a future of relatively slow demand growth, it still faces a considerable supply challenge due to the expected decline in indigenous production. • In 2010, Europe produced 285 bcm, which accounted for nearly 51 percent of required supply, and left a demand gap of 276 bcm to be met by imports. • IHS CERA's detailed supply outlook shows European gas production falling to 211 Bcm by 2025—which will account for just 33 percent of required supply and leave a demand gap of 433 bcm. Thus the gas industry today faces the challenge of supplying an additional 157 Bcm annually by 2025—with all of the investment in upstream development and transportation infrastructure that this entails. • IHS CERA expects demand growth to average just over 1 percent per year between 2010 and 2025. This would bring European gas demand to 644 bcm by 2025, up from 561 bcm in 2010. • IHS CERA's analysis suggests that the export market for Uzbek gas will expand from its 2010 level of 15 bcm to 22 bcm by 2015 and approximately 30 bcm for the period 2020-2025. • The key driver will be the opening of the Chinese market to Central Asian gas, a process that began in 2009 with the inauguration of the Central Asia-China pipeline system. • Given the growing demand for Russian gas in the European market over the course of the next decade—and after 2020, demand from	Average - High	None

		China as well—Gazprom will maintain imports of Central Asian gas at a level of 40 to 60 bcm annually.		
Completion Risks				
Project Site & Permits	• Title of the project site • Access to the project site • Construction and other permits	• Project site is fully accessible (confirmed by lenders site visit and technical consultant's site visit). • PSA grants the right to use the land owned by the GOU to perform Hydrocarbon operations without collection of rent or other charges except for land tax. The project company has in control of the site since 2004.	Low	None
EPC	• Competence of EPC contractor • Financial / credit standing of EPC contractor • EPC contract market price • EPC contract cost overrun • Delay / Changes in project scope & schedule	• The lenders in this transaction are not taking EPC related risk as our financing is based on the future cash flow of an already developed Khauzak-Shady gas field. • Financing raised by this transaction will be used for the new development for Kandym field and to upgrade production from 3 bcm to 4 bcm. Future gas production coming from these new developments is not considered for our debt servicing. • All development of the KSK project and related EPC selection has to be approved by the Steering Committee of the PSA, which is composed of representatives of Investor (LUKOIL and NHC Uzbekneftegaz) and of GOU. The investor and GOU have 1 vote each in the steering committee. • A very detailed procurement procedure has been established by the Steering Committee and currently being followed.	Low	

		• Company has been successful to commission the Phase 1 (ie, Khauzak-Shady) fields on schedule and keep the capital expenditures within the budget. • The contract for Phase 2 will be awarded through competitive bidding. • Any delay of the Development Plan has to be approved by the Steering Committee. In order to keep track of the Development Plan, the lenders will be provided copy of the annual / quarterly Hydrocarbon Operational Report which is prepared by the project company for the approval of the Steering Committee.		
Operation and Maintenance Risks				
O&M Agreement	O&M Agreement enforceability and termination	• The Operating Company (LUOC), a 100% subsidiary of the project company carries out the Hydrocarbons Operations. • As per the PSA, LUOC operates on no profit-no loss basis. • LUOC has been successfully operating Khauzak-Shady fields since 2004.	Low - Average	None
Technology	Reliability of technology and equipment	• Well proven and tested technology	Low	None
O&M Performance	Historical performance of the O&M operator Financial / credit standing of O&M contractor	• LUOC has been successful to commission the fields on schedule and keep the capital expenditures within the budget. • Production Rates: ○ Gas sold in 2009 : 2.5 bcm ○ Expected Gas Sale in 2010 : 3.1 bcm ○ Actual print out of the gas flow metering was taken by SGS, the lenders technical consultant and	Low	None

		SGS concluded that based on actual flow, forecasted production rate of 3.1 bcm/ year is reasonable. • LUOC is a subsidiary of the project company and will benefit from the committed line of facility which is guaranteed by LUKOIL Overseas Holding Ltd to meet any cash flow requirement for Khauzak-Shady and Kandym gas fields. • As per SGS, the lenders technical consultant, all facilities operated by LUOC are very organized, operational, state of the art and secured.		
Operations and Maintenance of the Khauzak-Shady facilities	Regular maintenance of the Khauzak-Shady facilities	• Cost of maintenance, spare parts and repair are found to be properly reported & undertaken (supported by SAP software). • Every year, the plant shuts down for a period of 4-5 weeks to maintain the total plant.	Low	
Gas Processing Risk				
Gas processing risk	Ability of the Mubarak Gas Processing Plant (Mubarak GPP) to handle gas from Khauzak-Shady Field, since LUKOIL has no influence on the operation, state and availability of the Mubarak GPP	• Mubarak GPP works on 50% of the natural gas generated in Uzbekistan and is a govt run / controlled plant. • Gas delivered by LUKOIL is only 10% of the available capacity of Mubarak GPP. • According to SGS, the technical consultant, the Mubarak GPP related risk is negligible. • As per the term & conditions of our financing, 'OAO' LUKOIL is going to give the Lenders a comprehensive corporate guarantee for the Mubarak GPP related risk (details in the term sheet).	Low	None
Transportation / Pipeline Risk				
Transportation /	Availability of Gas Pipeline to	• Gas Transportation System of Uzbekistan (GTS)	Low	None

Pipeline Risk	transport the gas up to the point of sale	is a part of the joint pipeline system of the CIS countries and consists of northern (parts of the Central Asia-Center & Bukhara-Ural) and southern direction (deliveries to southern Kazakhstan, Kyrgyzstan and Tajikistan) pipelines. The trunk GTS is also used for transit of Turkmenistan gas. • JSC Uztransgaz operates 120,000 km of gas transport network. • Gas from Khauzak-Shady has not faced any issues with transportation since inception of operation. • As per the term & conditions of our financing, 'OAO' LUKOIL is going to give the Lenders a comprehensive corporate guarantee for the gas transportation / pipeline related risk (details in the term sheet).		
Environmental Risks				
Impact on environment	water, air, or soil pollution	• The EIA report was prepared and submitted by LOU and was approved by the relevant authority in 2007. • The project will comply with ADB and MIGA's environment and safeguard requirements.	Low	None
Financial Repayment Risk				
Debt Repayment Capacity	Ability of the Project company to make debt repayments	• Financial model was developed by the Modelling Bank, Crédit Agricole CIB. • All assumptions verified by the technical consultant and technical bank. • Major assumptions of the model (reserve, price of gas) as taken very conservatively. • Tenor of the facility is only 8 years (for ADB & IDB) and 7 years (for commercial banks).	Low	None

		However, under base case scenario, all tranches will be repaid in 5 year. • Under base case, minimum DSCR is 1.3X and average DSCR is 1.75X. Sensitivity analysis was done and it shows projects strong economics.		