OAO LUKOIL

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(prepared in accordance with US GAAP)

As of and for the three and six month periods ended June 30, 2010

(unaudited)

These interim consolidated financial statements were prepared by OAO LUKOIL in accordance with US GAAP and have not been audited by our independent auditor. If these financial statements are audited in the future, the audit could reveal differences in our consolidated financial results and we can not assure that any such differences would not be material.

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Independent Accountants' Report

The Board of Directors OAO LUKOIL:

We have reviewed the accompanying consolidated balance sheet of OAO LUKOIL and subsidiaries as of June 30, 2010, and the related consolidated statements of income, the related consolidated statements of stockholders' equity and comprehensive income for the three-month and six-month periods ended June 30, 2010 and 2009, and the related consolidated statements of cash flows for the six-month periods ended June 30, 2010 and 2009. This interim financial information is the responsibility of OAO LUKOIL's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for them to be in conformity with accounting principles generally accepted in the United States of America.

ZAO KPMG

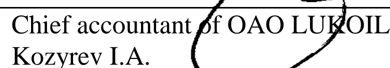
ZAO KPMG
Moscow, Russian Federation
August 27, 2010

ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a subsidiary of KPMG Europe LLP, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

OAO LUKOIL
Consolidated Balance Sheets
(Millions of US dollars, unless otherwise noted)

	Note	As of June 30, 2010 (unaudited)	As of December 31, 2009
Assets			
Current assets			
Cash and cash equivalents	4	3,748	2,274
Short-term investments		158	75
Accounts and notes receivable, net	5	6,721	5,935
Inventories		6,194	5,432
Prepaid taxes and other expenses		2,331	3,549
Other current assets		596	574
Total current assets		**19,748**	**17,839**
Investments	6	5,895	5,944
Property, plant and equipment	7	53,334	52,228
Deferred income tax assets		601	549
Goodwill and other intangible assets	8	1,614	1,653
Other non-current assets		1,198	806
Total assets		**82,390**	**79,019**
Liabilities and Equity			
Current liabilities			
Accounts payable		5,671	4,906
Short-term borrowings and current portion of long-term debt	9	1,731	2,058
Taxes payable		1,810	1,828
Other current liabilities		2,248	902
Total current liabilities		**11,460**	**9,694**
Long-term debt	10, 13	8,032	9,265
Deferred income tax liabilities		2,035	2,080
Asset retirement obligations	7	1,373	1,189
Other long-term liabilities		383	412
Total liabilities		**23,283**	**22,640**
Equity	12		
OAO LUKOIL stockholders' equity			
Common stock		15	15
Treasury stock, at cost		(208)	(282)
Additional paid-in capital		4,683	4,699
Retained earnings		54,208	51,634
Accumulated other comprehensive loss		(68)	(75)
Total OAO LUKOIL stockholders' equity		**58,630**	**55,991**
Noncontrolling interests		477	388
Total equity		**59,107**	**56,379**
Total liabilities and equity		**82,390**	**79,019**

Vice-president of OAO LUKOIL
Fedotov G.S.



Chief accountant of OAO LUKOIL
Kozyrev I.A.

The accompanying notes are an integral part of these interim consolidated financial statements.

OAO LUKOIL
Consolidated Statements of Income
(Millions of US dollars, unless otherwise noted)

	Note	For the three months ended June 30, 2010 (unaudited)	For the three months ended June 30, 2009 (unaudited)	For the six months ended June 30, 2010 (unaudited)	For the six months ended June 30, 2009 (unaudited)
Revenues					
Sales (including excise and export tariffs)	19	25,853	20,116	49,755	34,861
Costs and other deductions					
Operating expenses		(2,032)	(1,876)	(3,802)	(3,108)
Cost of purchased crude oil, gas and products		(10,755)	(7,910)	(20,275)	(13,272)
Transportation expenses		(1,429)	(1,187)	(2,780)	(2,356)
Selling, general and administrative expenses		(853)	(791)	(1,655)	(1,520)
Depreciation, depletion and amortization		(1,030)	(1,009)	(2,060)	(2,003)
Taxes other than income taxes		(2,269)	(1,395)	(4,349)	(2,593)
Excise and export tariffs		(4,762)	(2,888)	(9,340)	(5,407)
Exploration expenses		(29)	(32)	(146)	(69)
Gain (loss) on disposals and impairments of assets		13	(15)	10	12
Income from operating activities		**2,707**	**3,013**	**5,358**	**4,545**
Interest expense		(196)	(171)	(373)	(334)
Interest and dividend income		45	27	98	65
Equity share in income of affiliates	6	129	71	236	182
Currency translation loss		(2)	(109)	(42)	(124)
Other non-operating (expense) income		(46)	62	(75)	61
Income before income taxes		**2,637**	**2,893**	**5,202**	**4,395**
Current income taxes		(584)	(537)	(1,140)	(837)
Deferred income taxes		10	(106)	44	(196)
Total income tax expense	3	**(574)**	**(643)**	**(1,096)**	**(1,033)**
Net income		**2,063**	**2,250**	**4,106**	**3,362**
Less: (net income) net loss attributable to noncontrolling interests		(114)	74	(104)	(133)
Net income attributable to OAO LUKOIL		**1,949**	**2,324**	**4,002**	**3,229**
Basic and diluted earnings per share of common stock (US dollars) attributable to OAO LUKOIL:	12	2.30	2.74	4.72	3.81

The accompanying notes are an integral part of these interim consolidated financial statements.

OAO LUKOIL
Consolidated Statements of Stockholders' Equity and Comprehensive Income (unaudited)
(Millions of US dollars, unless otherwise noted)

	Common stock	Treasury stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total OAO LUKOIL stockholders' equity	Noncontrol-ling interests	Total equity
Six months ended June 30, 2010								
Balance as of December 31, 2009	15	(282)	4,699	51,634	(75)	**55,991**	388	**56,379**
Net income	-	-	-	4,002	-	**4,002**	104	**4,106**
Prior service cost	-	-	-	-	6	**6**	-	**6**
Unrecognized gain on available for sale securities	-	-	-	-	1	**1**	-	**1**
Comprehensive income						**4,009**	**104**	**4,113**
Dividends on common stock	-	-	-	(1,428)	-	**(1,428)**	-	**(1,428)**
Effect of stock compensation plan	-	-	49	-	-	**49**	-	**49**
New shares issued	-	-	1	-	-	**1**	-	**1**
Stock purchased	-	(188)	-	-	-	**(188)**	-	**(188)**
Stock disposed	-	262	(69)	-	-	**193**	-	**193**
Changes in the non-controlling interests	-	-	3	-	-	**3**	(15)	**(12)**
Balance as of June 30, 2010	**15**	**(208)**	**4,683**	**54,208**	**(68)**	**58,630**	**477**	**59,107**
Six months ended June 30, 2009								
Balance as of December 31, 2008	15	(282)	4,694	45,983	(70)	**50,340**	670	**51,010**
Net income	-	-	-	3,229	-	**3,229**	133	**3,362**
Prior service cost	-	-	-	-	6	**6**	-	**6**
Unrecognized loss on available for sale securities	-	-	-	-	(2)	**(2)**	-	**(2)**
Comprehensive income						**3,233**	**133**	**3,366**
Dividends on common stock	-	-	-	(1,360)	-	**(1,360)**	-	**(1,360)**
Effect of stock compensation plan	-	-	52	-	-	**52**	-	**52**
Changes in the non-controlling interests	-	-	-	-	-	**-**	(273)	**(273)**
Balance as of June 30, 2009	**15**	**(282)**	**4,746**	**47,852**	**(66)**	**52,265**	**530**	**52,795**

	Share activity (thousands of shares)	
	Common stock	**Treasury stock**
Six months ended June 30, 2010		
Balance as of December 31, 2009	850,563	(3,836)
Purchase of treasury stock	**-**	(3,622)
Disposal of treasury stock	**-**	3,540
Balance as of June 30, 2010	**850,563**	**(3,918)**
Six months ended June 30, 2009		
Balance as of December 31, 2008	850,563	(3,836)
Balance as of June 30, 2009	**850,563**	**(3,836)**

The accompanying notes are an integral part of these interim consolidated financial statements.

OAO LUKOIL
Consolidated Statements of Cash Flows
(Millions of US dollars)

	Note	For the six months ended June 30, 2010 (unaudited)	For the six months ended June 30, 2009 (unaudited)
Cash flows from operating activities			
Net income attributable to OAO LUKOIL		**4,002**	**3,229**
Adjustments for non-cash items:			
Depreciation, depletion and amortization		2,060	2,003
Equity share in income of affiliates, net of dividends received		(30)	(123)
Dry hole write-offs		94	23
Gain on disposals and impairments of assets		(10)	(12)
Deferred income taxes		(44)	196
Non-cash currency translation gain		(188)	(207)
Non-cash investing activities		(6)	(13)
All other items – net		280	161
Changes in operating assets and liabilities:			
Accounts and notes receivable		(800)	(2,009)
Inventories		(764)	(924)
Accounts payable		779	245
Taxes payable		(16)	337
Other current assets and liabilities		902	234
Net cash provided by operating activities		**6,259**	**3,140**
Cash flows from investing activities			
Acquisition of licenses		(12)	-
Capital expenditures		(3,120)	(2,995)
Proceeds from sale of property, plant and equipment		31	64
Purchases of investments		(170)	(111)
Proceeds from sale of investments		66	224
Sale of subsidiaries, net of cash disposed		111	5
Acquisitions of subsidiaries and non-controlling interests (including advances related to acquisitions), net of cash acquired		(239)	(2,096)
Net cash used in investing activities		**(3,333)**	**(4,909)**
Cash flows from financing activities			
Net movements of short-term borrowings		(771)	(70)
Proceeds from issuance of long-term debt		13	1,482
Principal repayments of long-term debt		(604)	(274)
Dividends paid on Company common stock		(1)	(1)
Dividends paid to non-controlling interest stockholders		(34)	(34)
Financing received from related and third party non-controlling interest stockholders		13	11
Purchase of Company's stock		(188)	-
Sale of Company's stock		193	-
Net cash (used in) provided by financing activities		**(1,379)**	**1,114**
Effect of exchange rate changes on cash and cash equivalents		(73)	(34)
Net increase (decrease) in cash and cash equivalents		**1,474**	**(689)**
Cash and cash equivalents at beginning of year		2,274	2,239
Cash and cash equivalents at end of period	4	**3,748**	**1,550**

Supplemental disclosures of cash flow information			
Interest paid		378	305
Income taxes paid		955	473

Note 1. Organization and environment

The primary activities of OAO LUKOIL (the "Company") and its subsidiaries (together, the "Group") are oil exploration, production, refining, marketing and distribution. The Company is the ultimate parent entity of this vertically integrated group of companies.

The Group was established in accordance with Presidential Decree 1403, issued on November 17, 1992. Under this decree, on April 5, 1993, the Government of the Russian Federation transferred to the Company 51% of the voting shares of fifteen enterprises. Under Government Resolution 861 issued on September 1, 1995, a further nine enterprises were transferred to the Group during 1995. Since 1995, the Group has carried out a share exchange program to increase its shareholding in each of the twenty-four founding subsidiaries to 100%.

From formation, the Group has expanded substantially through consolidation of its interests, acquisition of new companies and establishment of new businesses.

Business and economic environment

The Russian Federation has been experiencing political and economic change, that has affected and will continue to affect the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks, which do not typically exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment.

The accompanying interim consolidated financial statements reflect management's assessment of the impact of the business environment in the countries in which the Group operates on the operations and the financial position of the Group. The future business environments may differ from management's assessment.

Basis of preparation

The accompanying interim consolidated financial statements and notes thereto have not been audited by independent accountants, except for the balance sheet as of December 31, 2009. In the opinion of the Company's management, the interim consolidated financial statements include all adjustments and disclosures necessary to present fairly the Group's financial position, results of operations and cash flows for the interim periods reported herein. These adjustments were of a normal recurring nature.

These interim consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America ("US GAAP") as applicable to interim consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the Group's December 31, 2009 annual consolidated financial statements.

The results for the six-month period ended June 30, 2010 are not necessarily indicative of the results expected for the full year.

Note 2. Summary of significant accounting policies

Principles of consolidation

These interim consolidated financial statements include the financial position and results of the Company, controlled subsidiaries of which the Company directly or indirectly owns more than 50% of the voting interest, unless minority stockholders have substantive participating rights, and variable interest entities where the Group is determined to be the primary beneficiary. Other significant investments in companies of which the Company directly or indirectly owns between 20% and 50% of the voting interest and over which it exercises significant influence but not control, are accounted for using the equity method of accounting. Investments in companies of which the Company directly or indirectly owns more than 50% of the voting interest but where minority stockholders have substantive participating rights are accounted for using the equity method of accounting. Undivided interests in oil and gas joint ventures are accounted for using the proportionate consolidation method. Investments in other companies are recorded at cost. Equity investments and investments in other companies are included in "Investments" in the consolidated balance sheet.

Note 2. Summary of significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying value of oil and gas properties and other property, plant and equipment, goodwill impairment assessment, asset retirement obligations, deferred income taxes, valuation of financial instruments, and obligations related to employee benefits. Eventual actual amounts could differ from those estimates.

Revenue

Revenues from the production and sale of crude oil and petroleum products are recognized when title passes to customers at which point the risks and rewards of ownership are assumed by the customer and the price is fixed or determinable. Revenues include excise on petroleum products sales and duties on export sales of crude oil and petroleum products.

Revenues from non-cash sales are recognized at the fair market value of the crude oil and petroleum products sold.

Foreign currency translation

The Company maintains its accounting records in Russian rubles. The Company’s functional currency is the US dollar and the Group’s reporting currency is the US dollar.

For the majority of operations in the Russian Federation and outside the Russian Federation, the US dollar is the functional currency. Where the US dollar is the functional currency, monetary assets and liabilities have been translated into US dollars at the rate prevailing at each balance sheet date. Non-monetary assets and liabilities have been translated into US dollars at historical rates. Revenues, expenses and cash flows have been translated into US dollars at rates, which approximate actual rates at the date of the transaction. Translation differences resulting from the use of these rates are included in the consolidated statement of income.

For certain other operations, where the US dollar is not the functional currency and the economy is not hyperinflationary, assets and liabilities are translated into US dollars at year-end exchange rates and revenues and expenses are translated at average exchange rates for the year. Resulting translation adjustments are reflected as a separate component of comprehensive income.

In all cases, foreign currency transaction gains and losses are included in the consolidated statement of income.

As of June 30, 2010 and December 31, 2009, exchange rates of 31.20 and 30.24 Russian rubles to the US dollar, respectively, have been used for translation purposes.

The Russian ruble and other currencies of republics of the former Soviet Union are not readily convertible outside of their countries. Accordingly, the translation of amounts recorded in these currencies into US dollars should not be construed as a representation that such currency amounts have been, could be or will in the future be converted into US dollars at the exchange rate shown or at any other exchange rate.

Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less.

Note 2. Summary of significant accounting policies (continued)

Cash with restrictions on immediate use

Cash funds for which restrictions on immediate use exist are accounted for within other non-current assets.

Accounts and notes receivable

Accounts and notes receivable are recorded at their transaction amounts less provisions for doubtful debts. Provisions for doubtful debts are recorded to the extent that there is a likelihood that any of the amounts due will not be obtained. Non-current receivables are discounted to the present value of expected cash flows in future periods using the original discount rate.

Inventories

The cost of finished goods and purchased products is determined using the FIFO cost method. The cost of all other inventory categories is determined using an "average cost" method.

Investments

Debt and equity securities are classified into one of three categories: trading, available-for-sale, or held-to-maturity.

Trading securities are bought and held principally for the purpose of selling in the near term. Held-to-maturity securities are those securities in which a Group company has the ability and intent to hold until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses on trading securities are included in the consolidated statement of income. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are reported as a separate component of comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis. Dividends and interest income are recognized in the consolidated statement of income when earned.

A permanent decline in the market value of any available-for-sale or held-to-maturity security below cost is accounted for as a reduction in the carrying amount to fair value. The impairment is charged to the consolidated statement of income and a new cost base for the security is established. Premiums and discounts are amortized or accreted over the life of the related held-to-maturity or available-for-sale security as an adjustment to yield using the effective interest method and such amortization and accretion is recorded in the consolidated statement of income.

Property, plant and equipment

Oil and gas properties are accounted for using the successful efforts method of accounting whereby property acquisitions, successful exploratory wells, all development costs, and support equipment and facilities are capitalized. Unsuccessful exploratory wells are expensed when a well is determined to be non-productive. Other exploratory expenditures, including geological and geophysical costs are expensed as incurred.

Note 2. Summary of significant accounting policies (continued)

The Group continues to capitalize costs of exploratory wells and exploratory-type stratigraphic wells for more than one year after the completion of drilling if the well has found a sufficient quantity of reserves to justify its completion as a producing well and the company is making sufficient progress assessing the reserves and the economic and operating viability of the project. If these conditions are not met or if information that raises substantial doubt about the economic or operational viability of the project is obtained, the well would be assumed impaired, and its costs, net of any salvage value, would be charged to expense.

Depreciation, depletion and amortization of capitalized costs of oil and gas properties is calculated using the unit-of-production method based upon proved reserves for the cost of property acquisitions and proved developed reserves for exploration and development costs.

Production and related overhead costs are expensed as incurred.

Depreciation of assets not directly associated with oil production is calculated on a straight-line basis over the economic lives of such assets, estimated to be in the following ranges:

Buildings and constructions	5 – 40	Years
Machinery and equipment	5 – 20	Years

In addition to production assets, certain Group companies also maintain and construct social assets for the use of local communities. Such assets are capitalized only to the extent that they are expected to result in future economic benefits to the Group. If capitalized, they are depreciated over their estimated economic lives.

Significant unproved properties are assessed for impairment individually on a regular basis and any estimated impairment is charged to expense.

Asset retirement obligations

The Group records the fair value of liabilities related to its legal obligations to abandon, dismantle or otherwise retire tangible long-lived assets in the period in which the liability is incurred. A corresponding increase in the carrying amount of the related long-lived asset is also recorded. Subsequently, the liability is accreted for the passage of time and the related asset is depreciated using the unit-of-production method.

Goodwill and other intangible assets

Goodwill represents the excess of the cost of an acquired entity over the net of the fair value amounts assigned to assets acquired and liabilities assumed. It is assigned to reporting units as of the acquisition date. Goodwill is not amortized, but is tested for impairment at least on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The impairment test requires estimating the fair value of a reporting unit and comparing it with its carrying amount, including goodwill assigned to the reporting unit. If the estimated fair value of the reporting unit is less than its net carrying amount, including goodwill, then the goodwill is written down to its implied fair value.

Intangible assets with indefinite useful lives are tested for impairment at least annually. Intangible assets that have limited useful lives are amortized on a straight-line basis over the shorter of their useful or legal lives.

Note 2. Summary of significant accounting policies (continued)

Impairment of long-lived assets

Long-lived assets, such as oil and gas properties (other than unproved properties), other property, plant, and equipment, and purchased intangibles subject to amortization, are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to the estimated undiscounted future cash flows expected to be generated by that group. If the carrying amount of an asset group exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by writing down the carrying amount to the estimated fair value of the asset group, generally determined as discounted future net cash flows. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale are presented separately in the appropriate asset and liability sections of the balance sheet.

Income taxes

Deferred income tax assets and liabilities are recognized in respect of future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purposes of the consolidated financial statements and their respective tax bases and in respect of operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse and the assets be recovered and liabilities settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of income in the reporting period which includes the enactment date. The estimated effective income tax rate expected to be applicable for the full fiscal year is used in providing for income taxes on a current year-to-date basis.

The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income in the reporting periods in which the originating expenditure becomes deductible. In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that the deferred income tax assets will be realized. In making this assessment, management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies.

An income tax position is recognized only if the uncertain position is more likely than not of being sustained upon examination, based on its technical merits. A recognized income tax position is measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties relating to income tax in income tax expense in the consolidated statement of income.

Interest-bearing borrowings

Interest-bearing borrowings are initially recorded at the value of net proceeds received. Any difference between the net proceeds and the redemption value is amortized at a constant rate over the term of the borrowing. Amortization is included in the consolidated statement of income each period and the carrying amounts are adjusted as amortization accumulates.

If borrowings are repurchased or settled before maturity, any difference between the amount paid and the carrying amount is recognized in the consolidated statement of income in the period in which the repurchase or settlement occurs.

Note 2. Summary of significant accounting policies (continued)

Pension benefits

The expected costs in respect of pension obligations of Group companies are determined by an independent actuary. Obligations in respect of each employee are accrued over the reporting periods during which the employee renders service in the Group.

Treasury stock

Purchases by Group companies of the Company's outstanding stock are recorded at cost and classified as treasury stock within Stockholders' equity. Shares shown as Authorized and Issued include treasury stock. Shares shown as Outstanding do not include treasury stock.

Earnings per share

Basic earnings per share is computed by dividing net income available to common stockholders of the Company by the weighted-average number of shares of common stock outstanding during the reporting period. A calculation is carried out to establish if there is potential dilution in earnings per share if convertible securities were to be converted into shares of common stock or contracts to issue shares of common stock were to be exercised. If there is such dilution, diluted earnings per share is presented.

Contingencies

Certain conditions may exist as of the balance sheet date, which may result in losses to the Group but the impact of which will only be resolved when one or more future events occur or fail to occur.

If a Group company's assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability is accrued and charged to the consolidated statement of income. If the assessment indicates that a potentially material loss is not probable, but is reasonably possible, or is probable, but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, is disclosed in the notes to the consolidated financial statements. Loss contingencies considered remote or related to unasserted claims are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed.

Environmental expenditures

Estimated losses from environmental remediation obligations are generally recognized no later than completion of remedial feasibility studies. Group companies accrue for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change. Costs of expected future expenditures for environmental remediation obligations are not discounted to their present value.

Use of derivative instruments

The Group's derivative activity is limited to certain petroleum products marketing and trading outside of its physical crude oil and petroleum products businesses and hedging of commodity price risks. Currently this activity involves the use of futures and swaps contracts together with purchase and sale contracts that qualify as derivative instruments. The Group accounts for these activities under the mark-to-market methodology in which the derivatives are revalued each accounting period. Resulting realized and unrealized gains or losses are presented in the consolidated statement of income on a net basis. Unrealized gains and losses are carried as assets or liabilities on the consolidated balance sheet.

Note 2. Summary of significant accounting policies (continued)

Share-based payments

The Group accounts for liability classified share-based payment awards to employees at fair value on the date of grant and as of each reporting date. Expenses are recognized over the vesting period. Equity classified share-based payment awards to employees are valued at fair value on the date of grant and expensed over the vesting period.

Recent accounting pronouncements

In February 2010, the FASB issued Accounting Standards Update ("ASU") No. 2010-09, *"Subsequent events"* which amends Accounting Standards Codification ("ASC") No. 855 (former SFAS No. 165, *"Subsequent events"*), issued in May 2009. The Group adopted ASC No. 855 starting from the second quarter of 2009. These standards address accounting and disclosure requirements related to subsequent events and require management of an entity which is an SEC filer or is a conduit bond obligator for conduit securities that are traded in a public market to evaluate subsequent events through the date that the financial statements are issued. Entities that do not meet these criteria should evaluate subsequent events through the date the financial statements are available to be issued and are required to disclose the date through which subsequent events have been evaluated. The Group determined that it should evaluate subsequent events through the date the financial statements are available to be issued and applied the requirements of ASU No. 2010-09 starting from the financial statements for 2009.

In January 2010, the FASB issued ASU No. 2010-06, *"Improving Disclosures about Fair Value Measurements,"* which requires reporting entities to make new disclosures about recurring or nonrecurring fair-value measurements including significant transfers into and out of Level 1 and Level 2 fair-value measurements and information about purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements. This ASU also clarifies existing fair-value measurement disclosure guidance about the level of disaggregation, inputs, and valuation techniques. ASU No. 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the detailed Level 3 roll forward disclosures (which are effective for the annual reporting periods starting after December 15, 2010 and for interim periods within those annual reporting periods). The Group adopted the requirements of ASU No. 2010-06 (except for the detailed Level 3 roll forward disclosures) starting from the first quarter of 2010. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

In January 2010, the FASB issued ASU No. 2010-03, *"Extractive activities ─ Oil and Gas (Topic 932): Oil and Gas Reserve Estimation and Disclosures"*. The main provisions of ASU No. 2010-03 are the following: (1) expanding the definition of oil- and gas-producing activities to include the extraction of saleable hydrocarbons, in solid, liquid, or gaseous state, from oil sands, shale, coalbeds, or other nonrenewable resources that are intended to be upgraded into synthetic oil or gas, and activities undertaken with a view to such extraction; (2) entities should use first-day-of-the-month price during the 12-month period (the 12-months average price) in calculating proved oil and gas reserves and estimating related standardized measure of discounted net cash flows; (3) requiring entities to disclose separately information about reserves quantities and financial statement amounts for geographic areas that represent 15 percent or more of proved reserves; (4) separate disclosure for consolidated entities and equity method investments. ASU No. 2010-03 is effective for annual reporting periods ending on or after December 31, 2009. The Group adopted ASU No. 2010-03 starting from the financial statements for 2009. This adoption did not have a material impact on the Group's reported reserves evaluation, results of operations, financial position or cash flows.

Note 2. Summary of significant accounting policies (continued)

In January 2010, the FASB issued ASU No. 2010-02, *"Accounting and Reporting for Decreases in Ownership of a Subsidiary - A Scope Clarification"* to clarify the scope of ASC Subtopic No. 810-10, *"Consolidation – Overall."* This ASU specifies that the guidance in ASC Subtopic No. 810-10 on accounting for decreases in ownership of a subsidiary applies to: (1) a subsidiary or group of assets that constitutes a business or nonprofit activity; (2) a subsidiary that is a business or a nonprofit activity that is transferred to an equity method investee or a joint venture; and (3) an exchange of a group of assets that constitute a business or nonprofit activity for a noncontrolling interest in an entity. If a company's ownership interest in a subsidiary that is not a business or nonprofit activity decreases, then other accounting guidance generally would be applied based on the nature of the transaction. The new pronouncement also clarifies that the recent guidance on accounting for decreases in ownership of a subsidiary does not apply if the transaction is a sale of in-substance real estate or a conveyance of oil and gas properties. This ASU is effective for interim and annual periods ending after December 15, 2009 and the guidance should be applied on a retrospective basis to the first period in which the company adopted ASC No. 810. The Group adopted ASU No. 2010-02 starting from the financial statements for 2009. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

In January 2010, the FASB issued ASU No. 2010-01, *"Accounting for Distributions to Shareholders with Components of Stock and Cash,"* which addresses how an entity should account for the stock portion of a dividend in certain arrangements when a shareholder makes an election to receive cash or stock, subject to limitations on the amount of the dividend to be issued in cash. The stock portion of the dividend should be accounted for as a stock issuance upon distribution, resulting in basic earnings per share being adjusted prospectively. Prior to distribution, the entity's obligation to issue shares would be reflected in diluted earnings-per-share based on the guidance in ASC No. 260, which addresses contracts that may be settled in shares. This ASU is effective for interim and annual periods ending after December 15, 2009. The Group adopted ASU No. 2010-01 starting from the financial statements for 2009. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

In December 2009, the FASB issued ASU No. 2009-17, *"Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities,"* which amends the guidance on variable interest entities ("VIE") in ASC No. 810. This ASU changes the approach to determining VIE primary beneficiary from a quantitative assessment to a qualitative assessment designed to identify a controlling financial interest, and increases the frequency of required reassessments to determine whether an entity is the primary beneficiary of a VIE. ASU No. 2009-17 also clarifies, but does not significantly change, the characteristics that identify a VIE. ASU No. 2009-17 is effective as of the beginning of a company's first fiscal year that begins after November 15, 2009, and for subsequent interim and annual reporting periods. The Group adopted the requirements of ASU No. 2009-17 starting from the first quarter of 2010. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

In August 2009, the FASB issued ASU No. 2009-05, *"Measuring Liabilities at Fair Value,"* which amends Subtopic No. 820-10, *"Fair Value Measurements and Disclosures–Overall"* for the fair value measurements of liabilities. ASU No. 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques: valuation based on the quoted price of the identical liability when traded as an asset; valuation based on quoted prices for similar liabilities or similar liabilities when traded as an asset, or another valuation technique that is consistent with the principles of Topic 820 (such as present value technique or price for the identical liability). This ASU also clarifies that an entity is not required to include a separate input relating to the existence of a restriction that prevents the transfer of the liability. ASU No. 2009-05 is effective for the first interim or annual reporting periods after its publication. The Group adopted the requirements of ASU No. 2009-05 starting from the financial statements for 2009. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

Note 2. Summary of significant accounting policies (continued)

In March 2008, the FASB issued ASC No. 815 (former SFAS No. 161, *"Disclosures about Derivative Instruments and Hedging Activities"*). This ASC improves financial reporting about derivative instruments and hedging activities by enhanced disclosures of their effects on an entity's financial position, financial performance and cash flows. The Group adopted the provisions of ASC No. 815 starting from the first quarter of 2009. This adoption did not have any impact on the Group's results of operations, financial position or cash flows.

In December 2007, the FASB issued ASC No. 810 (former SFAS No. 160, *"Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51"*). This ASC applies to all entities that prepare consolidated financial statements (except not-for-profit organizations) and affects those which have an outstanding noncontrolling interest (or minority interest) in their subsidiaries or which have to deconsolidate a subsidiary. This ASC changes the classification of a non-controlling interest; establishing a single method of accounting for changes in the parent company's ownership interest that does not result in deconsolidation and requires a parent company to recognize a gain or loss when a subsidiary is deconsolidated. The Group prospectively adopted the provisions of ASC No. 810 in the first quarter of 2009, except for the presentation and disclosure requirements which were applied retrospectively. This adoption did not have any impact on the Group's results of operations, financial position or cash flows.

Note 3. Income taxes

Operations in the Russian Federation are subject to a Federal income tax rate of 2.0% and a regional income tax rate that varies from 13.5% to 18.0% at the discretion of the individual regional administration. The Group's foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

The Group's effective income tax rate for the periods presented differs from the statutory income tax rate primarily due to domestic and foreign rate differences and the incurrence of costs that are either not tax deductible or only deductible to a certain limit.

Note 4. Cash and cash equivalents

	As of June 30, 2010	As of December 31, 2009
Cash held in Russian rubles	1,922	557
Cash held in other currencies	1,523	1,384
Cash of a banking subsidiary in other currencies	94	131
Cash held in related party banks in Russian rubles	135	174
Cash held in related party banks in other currencies	74	28
Total cash and cash equivalents	**3,748**	**2,274**

Note 5. Accounts and notes receivable, net

	As of June 30, 2010	As of December 31, 2009
Trade accounts and notes receivable (net of provisions of $189 million and $191 million as of June 30, 2010 and December 31, 2009, respectively)	5,207	4,389
Current VAT and excise recoverable	1,097	1,205
Other current accounts receivable (net of provisions of $44 million and $41 million as of June 30, 2010 and December 31, 2009, respectively)	417	341
Total accounts and notes receivable, net	**6,721**	**5,935**

Note 6. Investments

	As of June 30, 2010	As of December 31, 2009
Investments in equity method affiliates and joint ventures	4,698	4,754
Long-term loans given by non-banking subsidiaries	1,171	1,176
Other long-term investments	26	14
Total long-term investments	**5,895**	**5,944**

Investments in "equity method" affiliates and joint ventures

The summarized financial information below is in respect of equity method affiliates and corporate joint ventures. The companies are primarily engaged in crude oil exploration, production, marketing and distribution operations in the Russian Federation, crude oil production and marketing in Kazakhstan, and refining operations in Europe.

	For the three months ended June 30, 2010		For the three months ended June 30, 2009	
	Total	Group's share	Total	Group's share
Revenues	8,050	1,008	1,094	529
Income before income taxes	2,125	170	232	118
Less income taxes	(453)	(41)	(92)	(47)
Net income	**1,672**	**129**	**140**	**71**

	For the six months ended June 30, 2010		For the six months ended June 30, 2009	
	Total	Group's share	Total	Group's share
Revenues	11,658	1,743	1,951	937
Income before income taxes	4,399	341	458	246
Less income taxes	(1,300)	(105)	(127)	(64)
Net income	**3,099**	**236**	**331**	**182**

	As of June 30, 2010		As of December 31, 2009	
	Total	Group's share	Total	Group's share
Current assets	6,515	1,344	6,796	1,524
Property, plant and equipment	18,065	4,910	18,877	5,284
Other non-current assets	897	304	607	240
Total assets	25,477	6,558	26,280	7,048
Short-term debt	53	21	442	274
Other current liabilities	3,204	477	3,982	817
Long-term debt	7,865	894	7,769	732
Other non-current liabilities	1,693	468	1,633	471
Net assets	**12,662**	**4,698**	**12,454**	**4,754**

In June 2009, a Group company entered into an agreement with Total to acquire a 45% interest in the TRN refinery in the Netherlands. The transaction was finalized in September 2009 in the amount of approximately $700 million. The Group supplies crude oil and market refined products in line with its equity stake in the refinery. The refinery has the flexibility to process Urals blend crude oil as well as significant volumes of straight-run fuel oil and vacuum gasoil, which will allow the Group to integrate the plant into its crude oil supply and refined products marketing operations. This plant with a Nelson complexity index of 9.8 has an annual topping capacity of 7.9 million tonnes and an annual capacity of a hydro-cracking unit of approximately 3.4 million tonnes. This acquisition was made in accordance with the Group's plans to develop its refining capacity in Europe.

Note 7. Property, plant and equipment and asset retirement obligations

	At cost		Net	
	As of June 30, 2010	**As of December 31, 2009**	**As of June 30, 2010**	**As of December 31, 2009**
Exploration and Production:				
Western Siberia	24,375	23,465	14,413	13,878
European Russia	25,519	24,908	17,771	17,761
International	6,826	6,371	5,464	5,170
Total	56,720	54,744	37,648	36,809
Refining, Marketing, Distribution and Chemicals:				
Western Siberia	5	6	3	5
European Russia	10,815	10,228	7,177	6,923
International	6,995	6,849	4,778	4,783
Total	17,815	17,083	11,958	11,711
Other:				
Western Siberia	183	186	90	94
European Russia	3,927	3,951	3,528	3,491
International	178	189	110	123
Total	4,288	4,326	3,728	3,708
Total property, plant and equipment	**78,823**	**76,153**	**53,334**	**52,228**

As of June 30, 2010 and December 31, 2009, the asset retirement obligation amounted to $1,383 million and $1,199 million, respectively, of which $10 million was included in “Other current liabilities” in the consolidated balance sheets as of each balance sheet date. During the six-month periods ended June 30, 2010 and 2009, asset retirement obligations changed as follows:

	For the six months ended June 30, 2010	**For the six months ended June 30, 2009**
Asset retirement obligations as of January 1	1,199	728
Accretion expense	60	33
New obligations	85	37
Changes in estimates of existing obligations	90	121
Spending on existing obligations	(2)	(2)
Property dispositions	(2)	(6)
Foreign currency translation and other adjustments	(47)	(50)
Asset retirement obligations as of June 30	**1,383**	**861**

Note 8. Goodwill and other intangible assets

The carrying value of goodwill and other intangible assets as of June 30, 2010 and December 31, 2009 was as follows:

	As of June 30, 2010	**As of December 31, 2009**
Amortized intangible assets		
Software	393	419
Licenses and other assets	452	465
Goodwill	769	769
Total goodwill and other intangible assets	**1,614**	**1,653**

All goodwill amounts relate to the refining, marketing and distribution segment. During the six-month period ended June 30, 2010, there were no changes in goodwill.

Note 9. Short-term borrowings and current portion of long-term debt

	As of June 30, 2010	As of December 31, 2009
Short-term borrowings from third parties	180	442
Short-term borrowings from affiliated companies	45	77
13.50% Russian ruble bonds	-	496
Current portion of long-term debt	1,506	1,043
Total short-term borrowings and current portion of long-term debt	**1,731**	**2,058**

Short-term borrowings from third parties are unsecured and include amounts repayable in US dollars of $132 million and $282 million, amounts repayable in Euro of $28 million and $76 million, amounts repayable in Russian rubles nil and $18 million and amounts repayable in other currencies of $20 million and $66 million as of June 30, 2010 and December 31, 2009, respectively. The weighted-average interest rate on short-term borrowings from third parties was 2.08% and 2.02% per annum as of June 30, 2010 and December 31, 2009, respectively.

Russian ruble bonds

In June 2009, the Company issued 15 million short-term stock exchange bonds with a face value of 1,000 Russian rubles each. Bonds were placed at the face value with a maturity of 364 days. The coupon yield is 13.50% per annum and is paid at the maturity date. By the end of June 2010, the Company redeemed all issued bonds in accordance with the conditions of the bond issue.

Note 10. Long-term debt

	As of June 30, 2010	As of December 31, 2009
Long-term loans and borrowings from third parties	3,543	4,043
Long-term loans and borrowings from related parties	1,742	1,939
6.375% US dollar bonds, maturing 2014	896	895
6.356% US dollar bonds, maturing 2017	500	500
7.250% US dollar bonds, maturing 2019	595	595
6.656% US dollar bonds, maturing 2022	500	500
7.10% Russian ruble bonds, maturing 2011	256	265
13.35% Russian ruble bonds, maturing 2012	801	827
9.20% Russian ruble bonds, maturing 2012	321	331
7.40% Russian ruble bonds, maturing 2013	192	198
Capital lease obligations	192	215
Total long-term debt	9,538	10,308
Current portion of long-term debt	(1,506)	(1,043)
Total non-current portion of long-term debt	**8,032**	**9,265**

Long-term loans and borrowings

Long-term loans and borrowings from third parties include amounts repayable in US dollars of $3,115 million and $3,493 million, amounts repayable in Euro of $394 million and $487 million, amounts repayable in Russian rubles of $15 million and $42 million, and amounts repayable in other currencies of $19 million and $21 million as of June 30, 2010 and December 31, 2009, respectively. This debt has maturity dates from 2010 through 2021. The weighted-average interest rate on long-term loans and borrowings from third parties was 3.02% and 2.77% per annum as of June 30, 2010 and December 31, 2009, respectively. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. Approximately 16% of total long-term debt is secured by export sales and property, plant and equipment.

Note 10. Long-term debt (continued)

Group companies have a number of loan agreements nominated in Russian rubles with ConocoPhillips, the Group's related party, with an outstanding amount of $1,742 million as of June 30, 2010. This amount includes $1,495 million loaned by ConocoPhillips to our joint venture OOO Narianmarneftegaz ("NMNG") (refer to Note 15. Consolidation of Variable Interest Entity). Borrowings under these agreements bear interest at fixed rates ranging from 6.8% to 8.2% per annum and have maturity dates up to 2038. Financing under these agreements is used to develop oil production and distribution infrastructure in the Timan-Pechora region of the Russian Federation.

US dollar bonds

In November 2009, a Group company issued two tranches of non-convertible bonds totaling $1.5 billion. The first tranche totaling $900 million with a coupon yield of 6.375% per annum was placed with a maturity of 5 years at a price of 99.474% of the bond's face value. The resulting yield to maturity for the first tranche is 6.500%. The second tranche totaling $600 million with a coupon yield of 7.250% per annum was placed with a maturity of 10 years at a price of 99.127% of the bond's face value. The resulting yield to maturity for the second tranche is 7.375%. These tranches have a half year coupon period.

In June 2007, a Group company issued non-convertible bonds totaling $1 billion. $500 million were placed with a maturity of 10 years and a coupon yield of 6.356% per annum. Another $500 million were placed with a maturity of 15 years and a coupon yield of 6.656% per annum. All bonds were placed at face value and have a half year coupon period.

Russian ruble bonds

In December 2009, the Company issued 10 million stock exchange bonds with a face value of 1,000 Russian rubles each. Bonds were placed at face value with a maturity of 1,092 days. The bonds have a 182 days' coupon period and bear interest at 9.20% per annum.

In August 2009, the Company issued 25 million stock exchange bonds with a face value of 1,000 Russian rubles each. Bonds were placed at face value with a maturity of 1,092 days. The bonds have a 182 days' coupon period and bear interest at 13.35% per annum.

In December 2006, the Company issued 14 million non-convertible bonds with a face value of 1,000 Russian rubles each. Eight million bonds were placed with a maturity of 5 years and a coupon yield of 7.10% per annum and six million bonds were placed with a maturity of 7 years and a coupon yield of 7.40% per annum. All bonds were placed at face value and have a half year coupon period.

Note 11. Pension benefits

The Company sponsors a post employment and post retirement benefits program that covers the majority of the Group's employees. The plan primarily consists of a defined benefit plan enabling employees to contribute a portion of their salary to the plan and at retirement to receive a lump sum amount from the Company equal to all past contributions made by the employee up to 2% of their annual salary. This plan is administered by a non-state pension fund, LUKOIL-GARANT, and provides pension benefits primarily based on years of service and final remuneration levels. The Company also provides several long-term employee benefits such as death-in-service benefit and lump-sum payments upon retirement of a defined benefit nature and other defined benefits to certain old age and disabled pensioners who have not vested any pensions under the pension plan.

Note 11. Pension benefits (continued)

Components of net periodic benefit cost were as follows:

	For the three months ended June 30, 2010	For the three months ended June 30, 2009	For the six months ended June 30, 2010	For the six months ended June 30, 2009
Service cost	4	4	8	8
Interest cost	7	6	13	11
Less expected return on plan assets	(2)	(3)	(5)	(5)
Amortization of prior service cost	4	3	7	6
Total net periodic benefit cost	**13**	**10**	**23**	**20**

Note 12. Stockholders' equity

Common stock

	As of June 30, 2010 (thousands of shares)	As of December 31, 2009 (thousands of shares)
Authorized and issued common stock, par value of 0.025 Russian rubles each	850,563	850,563
Common stock held by subsidiaries, not considered as outstanding	-	(82)
Treasury stock	(3,918)	(3,836)
Outstanding common stock	**846,645**	**846,645**

Earnings per share

The weighted average number of outstanding common shares was 847,812 thousand shares, 846,646 thousand shares, 847,232 thousand shares and 846,646 thousand shares for the three months ended June 30, 2010 and 2009 and for the six months ended June 30, 2010 and 2009, respectively. There is no potential dilution in earnings available to common stockholders and as such diluted earnings per share are not disclosed.

Dividends

At the annual stockholders' meeting on June 24, 2010, dividends were declared for 2009 in the amount of 52.00 Russian rubles per common share, which at the date of the meeting was equivalent to $1.68. Dividends payable of $1,429 million and $13 million are included in "Other current liabilities" in the consolidated balance sheets as of June 30, 2010 and December 31, 2009, respectively.

At the annual stockholders' meeting on June 25, 2009, dividends were declared for 2008 in the amount of 50.00 Russian rubles per common share, which at the date of the meeting was equivalent to $1.61.

Note 13. Financial and derivative instruments

Fair value

The fair values of cash and cash equivalents, current accounts and notes receivable, long-term receivables and liquid securities are approximately equal to their value as disclosed in the consolidated financial statements. The fair value of long-term receivables was determined by discounting with estimated market interest rates for similar financing arrangements.

Note 13. Financial and derivative instruments (continued)

The fair value of long-term debt differs from the amount disclosed in the consolidated financial statements. The estimated fair value of long-term debt as of June 30, 2010 and December 31, 2009 was $9,705 million and $9,976 million, respectively, as a result of discounting using estimated market interest rates for similar financing arrangements. These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion and interest. Market interest rates mean the rates of raising long-term debt by companies with a similar credit rating for similar tenors, repayment schedules and similar other main terms. During the six months ended June 30, 2010, the Group did not have significant transactions or events that would result in nonfinancial assets and liabilities measured at fair value on a nonrecurring basis.

Derivative instruments

The Group uses financial and commodity-based derivative contracts to manage exposures to fluctuations in foreign currency exchange rates, commodity prices, or to exploit market opportunities. Since the Group is not currently using ASC Nos. 220, 310, 440 and 815 (former SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activity"*) hedge accounting, all gains and losses, realized or unrealized, from derivative contracts have been recognized in the consolidated income statement.

ASC No. 815 requires purchase and sales contracts for commodities that are readily convertible to cash (e.g., crude oil, natural gas and gasoline) to be recorded on the balance sheet as derivatives unless the contracts are for quantities the Group expects to use or sell over a reasonable period in the normal course of business (i.e., contracts eligible for the normal purchases and normal sales exception). The Group does apply the normal purchases and normal sales exception to certain long-term contracts to sell oil products. This normal purchases and normal sales exception is applied to eligible crude oil and refined product commodity purchase and sales contracts; however, the Group may elect not to apply this exception (e.g., when another derivative instrument will be used to mitigate the risk of the purchase or sale contract but hedge accounting will not be applied, in which case both the purchase or sales contract and the derivative contract mitigating the resulting risk will be recorded on the balance sheet at fair value).

The fair value hierarchy for the Group's derivative assets and liabilities accounted for at fair value on a recurring basis was:

	As of June 30, 2010				As of December 31, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Commodity derivatives	-	581	-	**581**	-	1,065	-	**1,065**
Total assets	-	**581**	-	**581**	-	**1,065**	-	**1,065**
Liabilities								
Commodity derivatives	-	(542)	-	**(542)**	-	(1,110)	-	**(1,110)**
Total liabilities	-	**(542)**	-	**(542)**	-	**(1,110)**	-	**(1,110)**
Net assets (liabilities)	-	**39**	-	**39**	-	**(45)**	-	**(45)**

The derivative values above are based on an analysis of each contract as the fundamental unit of account as required by ASC No. 820; therefore, derivative assets and liabilities with the same counterparty are not reflected net where the legal right of offset exists. Gains or losses from contracts in one level may be offset by gains or losses on contracts in another level or by changes in values of physical contracts or positions that are not reflected in the table above.

Note 13. Financial and derivative instruments (continued)

Commodity derivative contracts

The Group operates in the worldwide crude oil, refined product, natural gas and natural gas liquids markets and is exposed to fluctuations in the prices for these commodities. These fluctuations can affect the Group's revenues as well as the cost of operating, investing and financing activities. Generally, the Group's policy is to remain exposed to the market prices of commodities. However, the Group uses futures, forwards, swaps and options in various markets to balance physical systems, meet customer needs, manage price exposures on specific transactions, and do a limited, immaterial amount of trading not directly related to the Group's physical business. These activities may move the Group's profile away from market average prices.

The fair value of commodity derivative assets and liabilities as of June 30, 2010 was:

	As of June 30, 2010
Assets	
Accounts receivable	579
Liabilities	
Accounts payable	542

Hedge accounting has not been used for items in the table.

As required under ASC No. 815 the amounts shown in the preceding table are presented gross (i.e., without netting assets and liabilities with the same counterparty where the right of offset and intent to net exist). Derivative assets and liabilities resulting from eligible commodity contracts have been netted in the consolidated balance sheet and are recorded as accounts receivable in the amount of $95 million and accounts payable in the amount of $58 million.

The gain and losses from commodity derivatives were included in the consolidated income statements in "Cost of purchased crude oil, gas and products" and for the three and six months ended June 30, 2010 were in the total amount of net gain of $319 million (of which realized gain was $142 million and unrealized gain was $177 million) and of $247 million (of which realized gain was $177 million and unrealized gain was $70 million), respectively.

As of June 30, 2010, the net position of outstanding commodity derivative contracts, primarily to manage price exposure on underlying operations, was not significant.

Currency exchange rate derivative contracts

The Group has foreign currency exchange rate risk resulting from its international operations. The Group does not comprehensively hedge the exposure to currency rate changes, although the Group selectively hedges certain foreign currency exchange rate exposures, such as firm commitments for capital projects or local currency tax payments and dividends.

The fair value of foreign currency derivatives assets and liabilities open at June 30, 2010 was not significant.

The impact from foreign currency derivatives during the three and six months ended June 30, 2010 on the consolidated income statement was not significant. The net position of outstanding foreign currency swap contracts as of June 30, 2010 also was not significant.

Note 13. Financial and derivative instruments (continued)

Credit risk

The Group's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash equivalents, over-the-counter derivative contracts and trade receivables. Cash equivalents are placed in high-quality commercial paper, money market funds and time deposits with major international banks and financial institutions.

The credit risk from the Group's over-the-counter derivative contracts, such as forwards and swaps, derives from the counterparty to the transaction, typically a major bank or financial institution. Individual counterparty exposure is managed within predetermined credit limits and includes the use of cash-call margins when appropriate, thereby reducing the risk of significant non-performance. The Group also uses futures contracts, but futures have a negligible credit risk because they are traded on the New York Mercantile Exchange or the ICE Futures.

Certain of the Group's derivative instruments contain provisions that require the Group to post collateral if the derivative exposure exceeds a threshold amount. The Group has contracts with fixed threshold amounts and other contracts with variable threshold amounts that are contingent on the Group's credit rating. The variable threshold amounts typically decline for lower credit ratings, while both the variable and fixed threshold amounts typically revert to zero if the Group falls below investment grade. Cash is the primary collateral in all contracts; however, many contracts also permit the Group to post letters of credit as collateral.

There were no derivative instruments with such credit-risk-related contingent features that were in a liability position on June 30, 2010. The Group posted $11 million in collateral in the normal course of business for the over-the-counter derivatives. If the Group's credit rating were lowered one level from its "BBB-" rating (per Standard and Poors) on June 30, 2010, and it would be below investment grade, the Group would be required to post additional collateral of $5 million to the Group's counterparties for the over-the-counter derivatives, either with cash or letters of credit. The maximum additional collateral based on the lowest downgrade would be $14 million in total.

Note 14. Business combinations

In the first quarter of 2009, the Group acquired 100% interests in OOO Smolenskneftesnab, OOO IRT Investment, OOO PM Invest and OOO Retaier House for $238 million. These are holding companies, which between them own 96 petrol stations and plots of land in Moscow, the Moscow region and other regions of central European Russia. This acquisition was made in order to expand the Group's presence on the most advantageous retail market in the Russian Federation. The Group allocated $165 million to goodwill, $113 million to property, plant and equipment, $15 million to other assets, $8 million to deferred tax liability and $47 million to other liabilities. The value of property, plant and equipment was determined by an independent appraiser.

This business combination did not have a material impact on the Group's consolidated operations for the six-month period ended June 30, 2009. Therefore, no pro-forma income statement information has been provided.

Note 15. Consolidation of Variable Interest Entity

The Group and ConocoPhillips have a joint venture NMNG which develops oil reserves in the Timan-Pechora region of the Russian Federation. The Group and ConocoPhillips have equal voting rights over the joint venture's activity and effective ownership interests of 70% and 30%, respectively.

The Group determined that NMNG is a variable interest entity as the Group's voting rights are not proportionate to its ownership rights and all of NMNG's activities are conducted on behalf of the Group and ConocoPhillips, its related party. Based on the requirements of ASC No. 810 the Group performs a qualitative analysis as to whether it is the primary beneficiary of this VIE. As a result the Group is still considered to be the primary beneficiary of NMNG and consolidated it.

Note 15. Consolidation of Variable Interest Entity (continued)

NMNG's total assets were approximately $5.7 billion and $5.9 billion as of June 30, 2010 and December 31, 2009, respectively.

The Group and ConocoPhillips agreed to provide financing to NMNG by means of long-term loans in proportion to their effective ownership interests. These loans mature from 2035 to 2038, with the option to be extended for a further 35 years with the agreement of both parties. As of June 30, 2010, borrowings under these agreements bear fixed interest in the range of 6.8% to 8.2% per annum.

As of June 30, 2010, the amount outstanding to ConocoPhillips from NMNG was $1,495 million, which consists of a number of loans with a weighted-average interest rate of 7.76% per annum. This amount is presented within "Long-term loans and borrowings from related parties."

Note 16. Commitments and contingencies

Capital expenditure, exploration and investment programs

The Group owns and operates refineries in Bulgaria (LUKOIL Neftochim Bourgas AD) and Romania (Petrotel-LUKOIL S.A.). As a result of Bulgaria and Romania joining the European Union in 2007, LUKOIL Neftochim Bourgas AD and Petrotel-LUKOIL S.A. are required to upgrade their refining plants to comply with the requirements of European Union legislation in relation to the quality of produced petroleum products and environmental protection. These requirements are stricter than those which previously existed under Bulgarian and Romanian legislation. The Group estimates the amount of future capital commitment required to upgrade LUKOIL Neftochim Bourgas AD and Petrotel-LUKOIL S.A. to be approximately $25 million and $33 million, respectively.

Under the terms of existing exploration and production license agreements in Russia the Group has to fulfill certain operations: oil and gas exploration, wells drilling, fields development, etc., and the Group also has commitments to reach a defined level of extraction on the fields. Management believes that the Group's approved annual capital expenditure budgets fully cover all the requirements of the described license obligations.

Group companies have commitments for capital expenditure contributions in the amount of $506 million related to various production sharing agreements over the next 28 years.

The Company has signed a three-year agreement for the years 2010-2012 for drilling services with OOO Eurasia Drilling Company. The volume of these services is based on the Group's capital construction program, which is re-evaluated on an annual basis. The Group estimates the amount of capital commitment under this agreement for the second half of 2010 to be approximately $344 million.

The Company has signed a strategic agreement for the ongoing provision of construction, engineering and technical services with ZAO Globalstroy-Engineering. The volume of these services is based on the Group's capital construction program, which is re-evaluated on an annual basis. The Group estimates the amount of capital commitment under this agreement for the second half of 2010 to be approximately $142 million.

The Group has a commitment to purchase equipment for modernization of its petrochemical refinery Karpatnaftochim Ltd., located in Ukraine, until the end of 2011 in the amount of $21 million.

The Group has a commitment to execute the capital construction program of its power generation segment and under the terms of this program power plants with total capacity of 890 MW should be constructed. Currently the Group is approving certain amendments to the capital construction program, which included its extension by the end of 2013. As of June 30, 2010, the Group estimates the amount of this commitment to be approximately $784 million.

Note 16. Commitments and contingencies (continued)

In January 2010, the Company signed an agreement to develop the West Qurna-2 field located in the south of Iraq. The parties to the agreement are: the Iraqi state-owned South Oil Company and the contracting consortium formed by the Iraqi state-owned North Oil Company, the Company and Norway's Statoil ASA. The Company's share in the project is 56.25%. Under this agreement as of June 30, 2010 the Company has a commitment in the amount of approximately $263 million. The West Qurna-2 field has recoverable reserves of about 12.9 billion barrels.

In March 2010, an ethanol purchase agreement signed by a Group company came into force. The initial term of the agreement is five years. As of June 30, 2010, the estimated value of the contract is approximately $1.0 billion.

Operating lease obligations

Group companies have commitments of $968 million primarily for the lease of vessels and petroleum distribution outlets. Operating lease expenses were $37 million, $33 million, $70 million and $66 million for the three months ended June 30, 2010 and 2009 and for the six months ended June 30, 2010 and 2009, respectively. Commitments for minimum rentals under these leases as of June 30, 2010 are as follows:

	As of June 30, 2010
For the six-months ending December 31, 2010	129
2011 fiscal year	213
2012 fiscal year	168
2013 fiscal year	126
2014 fiscal year	111
beyond	221

Insurance

The insurance industry in the Russian Federation and certain other areas where the Group has operations is in the course of development. Management believes that the Group has adequate property damage coverage for its main production assets. In respect of third party liability for property and environmental damage arising from accidents on Group property or relating to Group operations, the Group has insurance coverage that is generally higher than insurance limits set by the local legal requirements. Management believes that the Group has adequate insurance coverage of the risks, which could have a material effect on the Group's operations and financial position.

Environmental liabilities

Group companies and their predecessor entities have operated in the Russian Federation and other countries for many years and, within certain parts of the operations, environmental related problems have developed. Environmental regulations are currently under consideration in the Russian Federation and other areas where the Group has operations. Group companies routinely assess and evaluate their obligations in response to new and changing legislation.

As liabilities in respect of the Group's environmental obligations are able to be determined, they are charged against income. The likelihood and amount of liabilities relating to environmental obligations under proposed or any future legislation cannot be reasonably estimated at present and could become material. Under existing legislation, however, management believes that there are no significant unrecorded liabilities or contingencies, which could have a materially adverse effect on the operating results or financial position of the Group.

Social assets

Certain Group companies contribute to Government sponsored programs, the maintenance of local infrastructure and the welfare of their employees within the Russian Federation and elsewhere. Such contributions include assistance with the construction, development and maintenance of housing, hospitals and transport services, recreation and other social needs. The funding of such assistance is periodically determined by management and is appropriately capitalized or expensed as incurred.

Note 16. Commitments and contingencies (continued)

Taxation environment

The taxation systems in the Russian Federation and other emerging markets where Group companies operate are relatively new and are characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among different tax authorities within the same jurisdictions and among taxing authorities in different jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. In the Russian Federation a tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation. Such factors may create taxation risks in the Russian Federation and other emerging markets where Group companies operate substantially more significant than those in other countries where taxation regimes have been subject to development and clarification over long periods.

The tax authorities in each region may have a different interpretation of similar taxation issues which may result in taxation issues successfully defended by the Group in one region being unsuccessful in another region. There is some direction provided from the central authority based in Moscow on particular taxation issues.

The Group has implemented tax planning and management strategies based on existing legislation at the time of implementation. The Group is subject to tax authority audits on an ongoing basis, as is normal in the Russian environment and other republics of the former Soviet Union, and, at times, the authorities have attempted to impose additional significant taxes on the Group. Management believes that it has adequately met and provided for tax liabilities based on its interpretation of existing tax legislation. However, the relevant tax authorities may have differing interpretations and the effects on the financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Litigation and claims

On November 27, 2001, Archangel Diamond Corporation (“ADC”), a Canadian diamond development company, filed a lawsuit in the District Court of Denver, Colorado against OAO Archangelskgeoldobycha (“AGD”), a Group company, and the Company (together the “Defendants”). ADC alleged that the Defendants interfered with the transfer of a diamond exploration license to Almazny Bereg, a joint venture between ADC and AGD. ADC claimed total damages of approximately $4.8 billion, including compensatory damages of $1.2 billion and punitive damages of $3.6 billion. On October 15, 2002, the District Court dismissed the lawsuit for lack of personal jurisdiction. This ruling was upheld by the Colorado Court of Appeals on March 25, 2004. On November 21, 2005, the Colorado Supreme Court affirmed the lower courts’ ruling that no specific jurisdiction exists over the Defendants. By virtue of this finding, AGD (the holder of the diamond exploration license) was dismissed from the lawsuit. The Supreme Court found, however, that the trial court made a procedural error by failing to hold an evidentiary hearing before making its ruling concerning general jurisdiction regarding the Company, which is whether the Company had systematic and continuous contacts in the State of Colorado at the time the lawsuit was filed. In a modified opinion dated December 19, 2005, the Colorado Supreme Court remanded the case to the Colorado Court of Appeals (instead of the District Court) to consider whether the lawsuit should have been dismissed on alternative grounds (i.e., forum non conveniens). On June 29, 2006, the Colorado Court of Appeals declined to dismiss the case based on forum non conveniens. The Company filed a petition for certiorari on August 28, 2006, asking the Colorado Supreme Court to review this decision. On March 5, 2007, the Colorado Supreme Court remanded the case to the District Court. On June 11, 2007, the District Court ruled it would conduct an evidentiary hearing on the issue of whether the Company is subject to general personal jurisdiction in the State of Colorado. Discovery regarding jurisdiction was commenced. On June 26, 2009, three creditors of ADC filed an Involuntary Bankruptcy Petition putting ADC into bankruptcy.

Note 16. Commitments and contingencies (continued)

ADC ultimately confirmed entry of an Order For Relief and the matter was converted to a Chapter 11 Case by order dated September 29, 2009. On November 25, 2009, after adding a claim, ADC removed the case from the Colorado District Court to the US Bankruptcy Court. On December 22, 2009, the Company filed a motion seeking to have the case remanded to the Colorado District Court. On December 31, 2009, before there was a ruling on the motion seeking remand ADC filed a motion seeking withdrawal of the reference to the Bankruptcy Court and requesting the case be heard by US District Court. On February 3, 2010, the US Bankruptcy Court ordered the Motion For Withdrawal Of The Reference be transferred to the US District Court for further action. All pending motions as well as discovery were stayed pending further order of the Court. On July 7, 2010, the District Court denied ADC's Motion for Withdrawal of reference and returned the case to the Bankruptcy Court for the determination of the Company's Motion for Remand and Abstention seeking return of the case to the Colorado state court. On August 5, 2010, the Bankruptcy Court held a status conference. At the conclusion of the conference the Bankruptcy Court set the Company's Motion for Remand and Abstention for hearing on September 20, 2010, and on the same date will hear arguments on ADC's Motion to Retain the case in the Bankruptcy Court. Management does not believe that the ultimate resolution of this matter will have a material adverse effect on the Group's financial condition.

In 2008 and 2009, the Federal Anti-monopoly Service of the Russian Federation ("FAS of Russia") considered two cases which resulted in the decisions issued against major Russian oil companies, including the Company and the Group's refinery plants alleging abuse of their dominant position in the oil products wholesale market of the Russian Federation.

The Moscow Arbitration Court combined all refinery plants' appeals against the first decision. On June 1, 2010 the Moscow Arbitration Court refused to satisfy the requests. The court decision has been appealed. The appeal hearing in the Ninth Arbitration Court of Appeal is scheduled for September 27, 2010.

The second decision of FAS of Russia was appealed by the refinery plants in their local courts. On February 8, 2010, the Arbitration Court of Nizhi Novgorod Region satisfied the request of OOO LUKOIL-Nizhnegorodnefteorgsintez to recognize as illegal the decisions of FAS of Russia dated September 10, 2009 and the resolution to impose fines in the amount of approximately $80 million. FAS of Russia filed an appeal which will be heard in First Arbitration Court of Appeal on October 4, 2010. The appeals of the other refinery plants are currently suspended.

During the period from the second half of 2008 until the present more than 100 claims in relation to a violation of the anti-monopoly regulation have been initiated against several Group companies in Russia and abroad. The companies were accused of violations primarily involving abuse of their dominant market position via setting monopolistically high retail prices in coordination with other market participants. These claims are being appealed in the courts.

On May 25, 2010, the Supreme Arbitration Court of Russia ruled in favor of the FAS of Russia on the first case concerning one of the major Russian oil companies. On July 30, 2010, the Federal Arbitration Court of North-West District issued the decision in favor of another major Russian oil company on the second case. Probably these court decisions are going to be appealed as part of supervisory procedure in the Supreme Arbitration Court of Russia. Currently management is considering the impact of these decisions on the claims against the Group.

The total amount of penalties assessed under the administrative law for the violation of anti-monopoly regulation by the Group in 2008-2009 is approximately $278 million. Management believes that the Group complied with all regulatory and legal requirements and, consequently, believes that the ultimate resolution of the antimonopoly claims will lead to cancellation or significant reduction of these penalties and will not have a material adverse impact on the Group's operating results or financial condition.

Note 16. Commitments and contingencies (continued)

The Group is involved in cost recovery disputes with the Republic of Kazakhstan. The Group's share of the initial claim is approximately $244 million. Management is of the view that substantially all of the amounts subject to dispute are in fact recoverable under the Final Production Sharing Agreement. Management believes that the ultimate resolution of the claim will not have a material adverse impact on the Group's operating results or financial condition.

The Group is involved in various other claims and legal proceedings arising in the normal course of business. While these claims may seek substantial damages against the Group and are subject to uncertainty inherent in any litigation, management does not believe that the ultimate resolution of such matters will have a material adverse impact on the Group's operating results or financial condition.

Note 17. Related party transactions

In the rapidly developing business environment in the Russian Federation, companies and individuals have frequently used nominees and other forms of intermediary companies in transactions. The senior management of the Company believes that the Group has appropriate procedures in place to identify and properly disclose transactions with related parties in this environment and has disclosed all of the relationships identified which it deemed to be significant. Related party sales and purchases of oil and oil products were primarily to and from affiliated companies and the Company's shareholder ConocoPhillips. Related party processing services were provided by affiliated refineries.

Below are related party transactions not disclosed elsewhere in the financial statements. Refer also to Notes 4, 6, 9, 10, 11, 15 and 18 for other transactions with related parties.

Sales of oil and oil products to related parties were $364 million, $437 million, $579 million and $525 million during the three months ended June 30, 2010 and 2009 and during the six months ended June 30, 2010 and 2009, respectively.

Other sales to related parties were $15 million, $15 million, $36 million and $29 million during the three months ended June 30, 2010 and 2009 and during the six months ended June 30, 2010 and 2009, respectively.

Purchases of oil and oil products from related parties were $141 million, $237 million, $288 million and $399 million during the three months ended June 30, 2010 and 2009 and during the six months ended June 30, 2010 and 2009, respectively.

Purchases of processing services from related parties were $172 million, $118 million, $348 million and $217 million during the three months ended June 30, 2010 and 2009 and during the six months ended June 30, 2010 and 2009, respectively.

Other purchases from related parties were $10 million, $6 million, $23 million and $11 million during the three months ended June 30, 2010 and 2009 and during the six months ended June 30, 2010 and 2009, respectively.

Amounts receivable from related parties, including loans and advances, were $492 million and $591 million as of June 30, 2010 and December 31, 2009, respectively. Amounts payable to related parties were $83 million and $97 million as of June 30, 2010 and December 31, 2009, respectively.

Note 18. Compensation plan

In December 2009, the Company introduced a new compensation plan to certain members of management for the period from 2010 to 2012, which is based on assigned shares and provides compensation consisting of two parts. The first part represents annual bonuses that are based on the number of assigned shares and the amount of dividend per share. The payment of these bonuses is contingent on the Group meeting certain financial KPIs in each financial year. The second part is based upon the Company's common stock appreciation from 2010 to 2012, with rights vesting after the date of the compensation plan's termination. The number of assigned shares is approximately 17.3 million shares.

Note 18. Compensation plan (continued)

For the first part of the share plan the Group recognizes a liability based on expected dividends and the number of assigned shares.

The second part of the share plan is classified as equity settled. The grant date fair value of the plan is estimated at $295 million. The fair value was estimated using the Black-Scholes-Merton option-pricing model, assuming a risk-free interest rate of 8.0% per annum, an expected dividend yield 3.09% per annum, expected term of three years and a volatility factor of 34.86%. The expected volatility factor was estimated based on the historical volatility of the Company's shares for the previous five year period up to January 2010.

As of June 30, 2010, there was $246 million of total unrecognized compensation cost related to unvested benefits. This cost is expected to be recognized periodically by the Group up to December 2012.

During the period from 2007 to 2009, the Company had a compensation plan available to certain members of management. Its conditions were similar to the conditions of the new compensation plan introduced in December 2009. The number of assigned shares was approximately 15.5 million shares. Because of unfavorable market situation the conditions for exercising the second part of this share plan were not met therefore no payments or share transfers to employees took place by the end of the compensation plan.

Related to these plans the Group recorded $33 million, $36 million, $65 million and $67 million of compensation expenses during the three months ended June 30, 2010 and 2009 and during the six months ended June 30, 2010 and 2009, respectively, of which $24 million, $25 million, $49 million and $52 million, respectively, are recognized as an increase in additional paid-in capital. As of June 30, 2010 and December 31, 2009, $25 million and $29 million related to these plans are included in "Other current liabilities" of the consolidated balance sheets, respectively. The total recognized tax benefit related to these accruals during the three months ended June 30, 2010 and 2009 and during the six months ended June 30, 2010 and 2009, is $7 million, $7 million, $13 million and $13 million, respectively.

Note 19. Segment information

Presented below is information about the Group's operating and geographical segments for the three and six months ended June 30, 2010 and 2009, in accordance with ASC No. 280 (former SFAS No. 131, *"Disclosures about Segments of an Enterprise and Related Information"*).

The Group has the following operating segments – exploration and production; refining, marketing and distribution; chemicals; power generation and other business segments. These segments have been determined based on the nature of their operations. Management on a regular basis assesses the performance of these operating segments. The exploration and production segment explores for, develops and produces primarily crude oil. The refining, marketing and distribution segment processes crude oil into refined products and purchases, sells and transports crude oil and refined petroleum products. The chemicals segment refines and sells chemical products. The power generation segment produces steam and electricity, distributes them and provides related services. The activities of the other business operating segment include businesses beyond the Group's traditional operations.

Geographical segments have been determined based on the area of operations and include three segments. They are Western Siberia, European Russia and International.

Note 19. Segment information (continued)

Operating segments

For the three months ended June 30, 2010

	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	680	24,565	312	280	16	-	25,853
Inter-segment	8,050	225	56	296	125	(8,752)	-
Total sales	8,730	24,790	368	576	141	(8,752)	25,853
Operating expenses	912	926	46	442	81	(375)	2,032
Depreciation, depletion and amortization	704	239	9	47	31	-	1,030
Interest expense	224	326	6	10	99	(469)	196
Income tax expense	268	319	5	(11)	(4)	(3)	574
Net income (net loss)	1,534	690	28	(46)	(160)	(97)	1,949
Total assets	53,955	59,401	1,579	4,187	14,121	(50,853)	82,390
Capital expenditures	1,273	304	20	111	14	-	1,722

For the three months ended June 30, 2009

	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	582	19,098	223	191	22	-	20,116
Inter-segment	5,821	192	28	300	165	(6,506)	-
Total sales	6,403	19,290	251	491	187	(6,506)	20,116
Operating expenses	929	756	62	349	121	(341)	1,876
Depreciation, depletion and amortization	636	269	13	47	44	-	1,009
Interest expense	216	323	4	12	95	(479)	171
Income tax expense	537	124	2	45	(82)	17	643
Net income (net loss)	1,545	907	(34)	(18)	(56)	(20)	2,324
Total assets	50,219	52,777	1,061	3,990	10,869	(43,728)	75,188
Capital expenditures	1,123	304	32	111	4	-	1,574

Note 19. Segment information (continued)

For the six months ended June 30, 2010

	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	1,433	46,956	607	730	29	-	49,755
Inter-segment	16,090	423	126	609	270	(17,518)	-
Total sales	17,523	47,379	733	1,339	299	(17,518)	49,755
Operating expenses	1,852	1,441	211	908	155	(765)	3,802
Depreciation, depletion and amortization	1,399	486	19	93	63	-	2,060
Interest expense	474	641	13	15	219	(989)	373
Income tax expense	599	483	12	(6)	(1)	9	1,096
Net income (net loss)	2,728	1,532	50	(40)	(227)	(41)	4,002
Total assets	53,955	59,401	1,579	4,187	14,121	(50,853)	82,390
Capital expenditures	2,390	532	43	200	25	-	3,190

For the six months ended June 30, 2009

	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	964	32,962	400	496	39	-	34,861
Inter-segment	9,330	380	37	540	358	(10,645)	-
Total sales	10,294	33,342	437	1,036	397	(10,645)	34,861
Operating expenses	1,621	1,028	201	664	224	(630)	3,108
Depreciation, depletion and amortization	1,297	508	21	94	83	-	2,003
Interest expense	418	500	6	33	175	(798)	334
Income tax expense	681	382	-	1	(31)	-	1,033
Net income (net loss)	3,152	624	(60)	(72)	(118)	(297)	3,229
Total assets	50,219	52,777	1,061	3,990	10,869	(43,728)	75,188
Capital expenditures	2,241	607	61	111	20	-	3,040

Geographical segments

	For the three months ended June 30, 2010	For the three months ended June 30, 2009	For the six months ended June 30, 2010	For the six months ended June 30, 2009
Sales of crude oil within Russia	295	38	481	43
Export of crude oil and sales of oil of foreign subsidiaries	6,109	5,293	12,688	9,056
Sales of refined products within Russia	2,627	1,783	4,973	3,400
Export of refined products and sales of refined products of foreign subsidiaries	15,274	11,698	28,414	19,898
Sales of chemicals within Russia	181	100	350	176
Export of chemicals and sales of chemicals of foreign subsidiaries	138	146	270	274
Other sales within Russia	630	485	1,451	1,010
Other export sales and other sales of foreign subsidiaries	599	573	1,128	1,004
Total sales	**25,853**	**20,116**	**49,755**	**34,861**

Note 19. Segment information (continued)

For the three months ended June 30, 2010

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	95	4,166	21,592	-	25,853
Inter-segment	4,044	6,779	8	(10,831)	-
Total sales	4,139	10,945	21,600	(10,831)	25,853
Operating expenses	558	1,243	435	(204)	2,032
Depletion, depreciation and amortization	261	587	182	-	1,030
Interest expense	9	154	123	(90)	196
Income tax expense	116	392	69	(3)	574
Net income	350	1,376	307	(84)	1,949
Total assets	18,208	46,219	29,497	(11,534)	82,390
Capital expenditures	491	818	413	-	1,722

For the three months ended June 30, 2009

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	36	2,971	17,109	-	20,116
Inter-segment	3,069	6,694	35	(9,798)	-
Total sales	3,105	9,665	17,144	(9,798)	20,116
Operating expenses	520	1,002	398	(44)	1,876
Depletion, depreciation and amortization	244	567	198	-	1,009
Interest expense	14	179	100	(122)	171
Income tax expense	218	354	88	(17)	643
Net income	1,336	924	72	(8)	2,324
Total assets	19,084	42,977	25,031	(11,904)	75,188
Capital expenditures	485	739	350	-	1,574

For the six months ended June 30, 2010

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	203	8,081	41,471	-	49,755
Inter-segment	8,190	13,257	13	(21,460)	-
Total sales	8,393	21,338	41,484	(21,460)	49,755
Operating expenses	1,131	2,136	986	(451)	3,802
Depletion, depreciation and amortization	509	1,164	387	-	2,060
Interest expense	20	324	239	(210)	373
Income tax expense	261	695	131	9	1,096
Net income	1,162	2,624	242	(26)	4,002
Total assets	18,208	46,219	29,497	(11,534)	82,390
Capital expenditures	974	1,448	768	-	3,190

Note 19. Segment information (continued)

For the six months ended June 30, 2009

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	65	5,570	29,226	-	34,861
Inter-segment	5,003	11,624	42	(16,669)	-
Total sales	5,068	17,194	29,268	(16,669)	34,861
Operating expenses	903	1,614	641	(50)	3,108
Depletion, depreciation and amortization	472	1,152	379	-	2,003
Interest expense	24	268	202	(160)	334
Income tax expense	310	636	121	(34)	1,033
Net income	1,385	2,026	120	(302)	3,229
Total assets	19,084	42,977	25,031	(11,904)	75,188
Capital expenditures	931	1,416	693	-	3,040

The Group's international sales to third parties include sales in Switzerland of $13,268 million, $9,403 million, $25,734 million and $15,883 million for the three months ended June 30, 2010 and 2009 and for the six months ended June 30, 2010 and 2009, respectively. The Group's international sales to third parties include sales in the USA of $2,035 million, $2,191 million, $4,080 million and $3,748 million for the three months ended June 30, 2010 and 2009 and for the six months ended June 30, 2010 and 2009, respectively. These amounts are attributed to individual countries based on the jurisdiction of subsidiaries making the sale.

Note 20. Subsequent events

In accordance with the requirements of ASC No. 855, *"Subsequent events,"* the Group evaluated subsequent events through the date the financial statements were available to be issued. Therefore subsequent events were evaluated by the Group up to August 27, 2010.

On 28 July, 2010, the Group company signed a stock purchase agreement with ConocoPhillips' subsidiary to purchase 64.6 million of the Company's ordinary shares at $53.25 per share for the total amount of $3,442 million. This transaction was finalized in August 2010. Additionally, under this agreement the Group has a 60-day option to purchase any or all of the remaining 98.7 million of the Company's ordinary shares held by ConocoPhillips' subsidiary for the price of $56 per share.