

Management's discussion and analysis of financial condition and results of operations

The following report contains a discussion and analysis of the financial condition of OAO LUKOIL as of September 30, 2013 and the results of its operations for the three and nine month periods ended September 30, 2013 and 2012, as well as significant factors that may affect its future performance. It should be read in conjunction with our interim US GAAP consolidated financial statements and notes thereto.

References to "LUKOIL," "the Company," "the Group," "we" or "us" are references to OAO LUKOIL and its subsidiaries and equity affiliates. All dollar amounts are in millions of US dollars, unless otherwise indicated. Tonnes of crude oil and natural gas liquids produced are translated into barrels using conversion rates characterizing the density of crude oil from each of our oilfields and actual density of liquids produced at our gas processing plants. Tonnes of crude oil purchased as well as other operational indicators expressed in barrels were translated into barrels using an average conversion rate of 7.33 barrels per tonne. Translations of cubic meters to cubic feet were made at the rate of 35.31 cubic feet per cubic meter. Translations of barrels of crude oil into barrels of oil equivalent ("BOE") were made at the rate of 1 barrel per BOE and of cubic feet – at the rate of 6 thousand cubic feet per BOE.

This report includes forward-looking statements – words such as "believes," "anticipates," "expects," "estimates," "intends," "plans," etc. – that reflect management's current estimates and beliefs, but are not guarantees of future results.

Key financial and operational results

	3 rd quarter of		Change, %	9 months of		Change, %
	2013	2012		2013	2012	
Sales (millions of US dollars).....	36,737	35,494	3.5	105,560	103,152	2.3
Net income attributable to OAO LUKOIL (millions of US dollars)	3,105	3,509	(11.5)	7,790	8,316	(6.3)
EBITDA (millions of US dollars)	5,472	5,441	0.6	14,606	14,249	2.5
Taxes other than income taxes, excise and export tariffs (millions of US dollars).....	(9,255)	(8,900)	4.0	(27,322)	(27,506)	(0.7)
Earning per share of common stock attributable to OAO LUKOIL (US dollars):						
Basic	4.11	4.65	(11.5)	10.32	10.91	(5.4)
Diluted	4.02	4.55	(11.5)	10.10	10.68	(5.4)
Hydrocarbon production by the Group including our share in equity affiliates (thousands of BOE)	200,959	198,889	1.0	598,095	593,941	0.7
Daily hydrocarbon production by the Group including our share in equity affiliates (thousands of BOE)	2,184	2,162	1.0	2,191	2,168	1.1
Crude oil and natural gas liquids produced by the Group including our share in equity affiliates (thousands of barrels)	172,618	170,566	1.2	509,231	507,016	0.4
Gas available for sale produced by the Group including our share in equity affiliates (millions of cubic meters)	4,816	4,813	0.1	15,100	14,771	2.2
Refined products produced by the Group including our share in equity affiliates (thousands of tonnes)	17,037	16,204	5.1	47,998	46,899	2.3

During the nine months of 2013, our net income was \$7,790 million, which is \$526 million, or 6.3%, less than in the same period of 2012. Our net income for the third quarter of 2013 amounted to \$3,105 million, which is \$404 million, or 11.5%, lower than in the third quarter of 2012. At the same time, our EBITDA increased by \$357 million, or by 2.5%, as compared to the nine months of 2012, and by \$31 million, or by 0.6%, as compared to the third quarter of 2012. In 2013, our net income was affected by the increase in depreciation, depletion and amortization and operating expenses, and the decrease in international hydrocarbon prices. At the same time, our quarterly results in 2012 were significantly influenced by changes in income tax expense as a result of movements in taxable currency translation gains and tax deductible currency translation losses reported by Russian subsidiaries.

Business overview

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

OAO LUKOIL 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 24 founding subsidiaries to 100%. From formation, the Group has expanded substantially through consolidation of interests, acquisition of new companies and establishment of new businesses. Now LUKOIL is a global energy company operating through its subsidiaries in 37 countries on four continents.

LUKOIL is one of the world's largest energy companies in terms of hydrocarbon reserves that amounted to 17.3 billion BOE as of January 1, 2013 and comprised of 13.4 billion barrels of crude oil and 23.5 trillion cubic feet of gas.

Our operations are divided into four main business segments:

- **Exploration and Production** – which includes our exploration, development and production operations relating to crude oil and gas. These activities are primarily located within Russia, with additional activities in Azerbaijan, Kazakhstan, Uzbekistan, Romania, the Middle East, South America, Northern and Western Africa and South-East Asia.
- **Refining, Marketing and Distribution** – which includes refining and transport operations, marketing and trading of crude oil, natural gas and refined products.
- **Chemicals** – which includes processing and trading of petrochemical products.
- **Power generation** – which includes generation, transportation and sales of electricity, heat and related services.

Each of our four main segments is dependent on the other, with a portion of the revenues of one segment being a part of the costs of the other. In particular, our Refining, Marketing and Distribution segment purchases crude oil from our Exploration and Production segment. As a result of certain factors considered in the “Domestic crude oil and refined products prices” section on page 8, benchmarking crude oil market prices in Russia cannot be determined with certainty. Therefore, the prices set for inter-segment purchases of crude oil reflect a combination of market factors, primarily international crude oil market prices, transportation costs, regional market conditions, the cost of crude oil refining and other factors. Accordingly, an analysis of either of these segments on a stand-alone basis could give a misleading impression of those segments' underlying financial position and results of operations. For this reason, we do not analyze either of our main segments separately in the discussion that follows. However, we present the financial data for each in Note 20 “Segment information” to the interim consolidated financial statements.

Recent developments

In April 2013, after approval by the Federal Anti-monopoly Service, in line with the strategy to increase crude oil production in Russia the Company purchased 100% of the shares of ZAO Samara-Nafta for \$2.1 billion after final adjustments. ZAO Samara-Nafta is an exploration and production company operating in Samara and Uljanovsk regions of the Russian Federation.

In April-May 2013, Group companies acquired the remaining 50% of the shares of ZAO Kama-oil, an exploration and production company operating in Perm region of the Russian Federation, for \$400 million increasing the Group's ownership up to 100%. As a result of this acquisition, the Group obtained control over ZAO Kama-oil and consolidated it.

In April 2013, a Group company issued two tranches of non-convertible bonds totaling \$3 billion. The first tranche totaling \$1.5 billion was placed with a maturity of 5 years and a coupon yield of 3.416% per annum. The second tranche totaling \$1.5 billion was placed with a maturity of 10 years and a coupon yield of 4.563% per annum. All bonds were placed at face value and have a half year coupon period.

In September 2012, after the approval by European regulatory authorities, the Group acquired a 20% stake in the joint venture operating the ISAB refining complex (“ISAB”) for €494 million (approximately \$621 million) after final adjustments. The Group's ownership in ISAB increased from 60% to 80% and the Group obtained control over the joint venture. This transaction was a partial exercise of ERG S.p.A. option to sell in full its stake in the joint venture established in 2008 to the Group. In April 2011, within this option, the Group acquired an 11% stake in the joint venture for €241 million (approximately \$342 million).

Operational highlights

Hydrocarbon production

We undertake exploration for, and production of, crude oil, natural gas liquids and natural gas in Russia and internationally. In Russia, our major oil producing subsidiaries are OOO LUKOIL-Western Siberia, OOO LUKOIL-Komi and OOO LUKOIL-Perm. Exploration and production outside of Russia is performed by our 100% subsidiary LUKOIL-Overseas, that has stakes in PSA's and other projects in Kazakhstan, Azerbaijan, Uzbekistan, Iraq, Saudi Arabia, Egypt, Ghana, Cote d'Ivoire, Vietnam, Venezuela, Romania and Sierra Leone.

The table below summarizes the results of our exploration and production activities.

	3 rd quarter of		9 months of	
	2013	2012	2013	2012
Crude oil and natural gas liquids production⁽¹⁾	(thousand BOE per day)			
Consolidated subsidiaries				
Western Siberia	985	1,017	997	1,016
Timan-Pechora	301	310	301	310
Ural region	297	287	293	285
Volga region	138	83	116	75
Other in Russia	38	38	38	38
Total in Russia.....	1,759	1,735	1,745	1,724
Total outside Russia	64	67	65	70
Total consolidated subsidiaries	1,823	1,802	1,810	1,794
Our share in equity affiliates				
in Russia	8	8	8	8
outside Russia	45	44	47	49
Total share in equity affiliates	53	52	55	57
Total crude oil and natural gas liquids	1,876	1,854	1,865	1,851
Natural gas production available for sale⁽²⁾				
Consolidated subsidiaries				
Western Siberia	175	182	185	182
Timan-Pechora	14	12	14	11
Ural region	17	13	17	15
Volga region	7	7	6	7
Total in Russia.....	213	214	222	215
Total outside Russia	85	86	95	94
Total consolidated subsidiaries.....	298	300	317	309
Share in equity affiliates				
in Russia	1	1	1	1
outside Russia	9	7	8	7
Total share in production of equity affiliates	10	8	9	8
Total natural gas available for sale	308	308	326	317
Total daily hydrocarbon production	2,184	2,162	2,191	2,168
			(US dollar per BOE)	
Hydrocarbon extraction expenses	5.67	5.05	5.52	4.92
- in Russia	5.67	5.05	5.54	4.94
- outside Russia	5.67	5.09	5.27	4.74
			(millions of US dollars)	
Hydrocarbon extraction expenses	1,103	971	3,190	2,821
- in Russia	1,026	900	2,963	2,611
- outside Russia.....	77	71	227	210
Exploration expenses	65	52	203	199
- in Russia	32	17	130	109
- outside Russia	33	35	73	90
Mineral extraction tax	3,268	2,992	9,311	9,264
- in Russia	3,250	2,967	9,256	9,193
- outside Russia.....	18	25	55	71

⁽¹⁾ Natural gas liquids produced at the Group gas processing plants.

⁽²⁾ Gas available for sale (excluding gas produced for our own consumption and including petroleum gas sold to third parties).

Crude oil production. In the nine months of 2013, our daily crude oil production increased by 1.0%, compared to the same period of 2012. We produced (including the Company's share in equity affiliates) 67.7 million tonnes, or 500.0 million barrels of crude oil. The main oil producing region for the Company is Western Siberia where we produced 55.0% of our crude oil in the nine months of 2013 (56.5% in the nine months of 2012).

The following table represents our crude oil production in the nine months of 2013 and 2012 by major regions.

(thousands of tonnes)	Change to 2012				
	9 months of 2013	Total, %	Change in structure	Organic change	9 months of 2012
Western Siberia.....	36,189	(1.9)	–	(704)	36,893
Timan-Pechora.....	11,351	(3.4)	–	(394)	11,745
Ural region.....	10,386	3.5	78	272	10,036
Volga region.....	4,122	56.1	1,115	367	2,640
Other in Russia.....	1,426	0.6	–	8	1,418
Crude oil produced in Russia.....	63,474	1.2	1,193	(451)	62,732
Crude oil produced internationally.....	2,345	(6.8)	(75)	(97)	2,517
Total crude oil produced by consolidated subsidiaries.....	65,819	0.9	1,118	(548)	65,249
Our share in crude oil produced by equity affiliates:					
in Russia.....	273	(5.2)	(39)	24	288
outside Russia.....	1,639	(4.2)	–	(71)	1,710
Total crude oil produced.....	67,731	0.7	1,079	(595)	67,247

The decrease in oil production in Western Siberia was due to natural depletion of reserves and an increase in water cut. The increasing water cut was also the reason for the decline of the production from Yuzhnoye Khylychuyu oilfield in Timan-Pechora. Nevertheless, this was compensated by the acquisitions of new upstream properties. The organic growth of our production in Russia was a result of the development the Yu. Korchagin greenfield in the Caspian Sea and greenfields in Timan-Pechora, successful employment of new technologies and an increase in drilling footage in traditional regions. As a result, our daily domestic crude oil and natural gas liquids production volumes increased by 1.2%, compared to the nine months of 2012.

The structural increase in our domestic production was a result of acquisition of 100.0% share of ZAO Samara-Nafta and an increase of Group's ownership in ZAO Kama-oil from 50.0% to 100.0% during the second quarter of 2013. At the same time, the transfer of ZAO Kama-oil from affiliates to subsidiaries led to some structural decrease in the affiliates' production in Russia. The structural decrease of our international production was a result of sale in the end of the second quarter of 2012 of 1.5% (10.0% of our share) in Karachaganak Petroleum Operating consortium, an upstream project in Kazakhstan, to a state-owned KazMunayGaz.

In addition to our production, we purchase crude oil in Russia and on international markets. In Russia, we primarily purchase crude oil from affiliated producing companies and other producers. Then we either refine or export purchased crude oil. Crude oil purchased in international markets is normally used for trading activities, for supplying our international refineries or for processing at third party refineries.

	3rd quarter of			
	2013		2012	
	(thousand of barrels)	(thousand of tonnes)	(thousand of barrels)	(thousand of tonnes)
Purchases in Russia.....	1,305	178	462	63
Purchases for trading internationally.....	14,324	1,954	7,858	1,072
Purchases for refining internationally.....	21,879	2,985	23,551	3,213
Total crude oil purchased.....	37,508	5,117	31,871	4,348

	9 months of			
	2013		2012	
	(thousand of barrels)	(thousand of tonnes)	(thousand of barrels)	(thousand of tonnes)
Purchases in Russia.....	2,456	335	1,767	241
Purchases for trading internationally	28,449	3,881	19,982	2,726
Purchases for refining internationally	54,402	7,422	68,015	9,279
Total crude oil purchased.....	85,307	11,638	89,764	12,246

Significant part of our crude oil purchases is for processing. Compared to the nine months of 2012, our purchases for processing at international refineries decreased by 20.0%, largely, as a result of the increase in volumes of own crude oil supplies. At the same time, our purchases for trading increased by 42.4% to compensate for the decrease of crude oil export from Russia.

Production of gas and natural gas liquids. In the nine months of 2013, we produced 15,100 million cubic meters (88.9 million BOE) of gas available for sale (including our share in equity affiliates), that is 2.2% more than in the nine months of 2012.

Our major gas production field is the Nakhodkinskoe field, where we produced 6,192 million cubic meters of natural gas in the nine months of 2013 (5,942 million cubic meters in the nine months of 2012). Our international gas production did not change significantly, compared to the nine months of 2012.

In the nine months of 2013, the output of natural gas liquids at the Group gas processing plants in Western Siberia, Ural and Volgograd regions of Russia was 9.2 million BOE, compared to 10.4 million BOE in the nine months of 2012. The decrease was a result of overhauls at our gas processing plant in Western Siberia in the third quarter of 2013.

Refining, marketing and trading

Refining. We own and operate four refineries located in European Russia and three refineries located outside of Russia – in Bulgaria, Romania and Italy. Moreover, we have a 45% interest in the Zeeland Refinery in the Netherlands.

In September 2012, we increased our interest up to 80% and obtained control over ISAB, in which we previously held 60%. Therefore, starting from September 2012, ISAB became our consolidated subsidiary, rather than equity affiliate.

Compared to the nine months of 2012, the total volume of refined products produced by the Group (including our share in equity affiliates production) increased by 2.3%. Production volumes at our Russian refineries increased by 3.3% against the background of low refining volumes at our refinery in Nizhny Novgorod in the nine month of 2012 as a consequence of repair works. Production of our international refineries increased by 0.4%. The increase of our share in the ISAB production was partially offset by the effect of decreased production at this refinery due to overhaul carried out in the first quarter of 2013.

We invested, and continue to invest, significant resources in our refineries aiming at taking the leading position in Russia in producing ecological fuel of high quality standards. Starting from July 1, 2012, all the gasoline and most of diesel fuel produced by the Group in Russia comply with Euro-5 standards.

Along with our own production of refined products we can refine crude oil at third party refineries depending on market conditions and other factors. In the nine months of 2013 and 2012, we processed our crude oil at third party refineries in Kazakhstan and Belarus.

The following table summarizes key figures for our refining activities.

	3 rd quarter of		9 months of	
	2013	2012	2013	2012
	(millions of US dollars)			
Refining expenses at the Group refineries	540	430	1,603	1,108
- in Russia	295	310	845	838
- outside Russia.....	245 ⁽¹⁾	120	758 ⁽¹⁾	270
Refining expenses at affiliated refineries outside of Russia.....	51	166 ⁽²⁾	169	645 ⁽²⁾
Refining expenses at third party refineries.....	15	28	57	75
Capital expenditures	490	345	1,464	905
- in Russia	259	279	951	581
- outside Russia.....	231	66	513	324
	(thousand barrels per day)			
Refinery throughput at the Group refineries	1,314	1,153	1,237	1,069
- in Russia	929	889	907	879
- outside Russia ⁽³⁾	385 ⁽¹⁾	264	330 ⁽¹⁾	190
Refinery throughput at affiliated refineries outside of Russia ⁽³⁾ ...	89	192 ⁽²⁾	95	233 ⁽²⁾
Refinery throughput at third party refineries.....	32	59	40	55
Total refinery throughput	1,435	1,404	1,372	1,357
	(thousands of tonnes)			
Production of the Group refineries in Russia	11,184	10,674	32,401	31,370
Production of the Group refineries outside Russia.....	4,739 ⁽¹⁾	3,134	12,070 ⁽¹⁾	6,799
Production of affiliated refineries outside of Russia	1,114	2,396 ⁽²⁾	3,527	8,730 ⁽²⁾
Refined products produced by the Group including our share in equity affiliates	17,037	16,204	47,998	46,899
Refined products produced at third party refineries	371	684	1,400	1,919
Total refined products produced	17,408	16,888	49,398	48,818

⁽¹⁾ Including 80% share of ISAB.

⁽²⁾ Including 60% share of ISAB.

⁽³⁾ Including refined product processed.

Marketing and trading. Our marketing and trading activities mainly include wholesale and bunkering operations in Western Europe, South-East Asia, Central America and retail operations in the USA, Central and Eastern Europe, the Baltic States and other regions. In Russia, we purchase refined products on occasion, primarily to manage supply chain bottlenecks.

The Group retails its refined products in 26 countries through nearly 5.6 thousand petrol stations (including franchisees). Most of the stations operate under the LUKOIL brand.

The table below summarizes figures for our trading activities.

	3 rd quarter of		9 months of	
	2013	2012	2013	2012
	(thousands of tonnes)			
Retail sales	4,226	4,103	11,691	11,371
Wholesale sales.....	25,659	24,874	76,567	71,809
Total refined products sales	29,885	28,977	88,258	83,180
Refined products purchased in Russia	461	385	1,560	1,136
Refined products purchased internationally	14,798	13,530	44,239	38,956
Total refined products purchased	15,259	13,915	45,799	40,092

Exports of crude oil and refined products from Russia. The volumes of crude oil and refined products exported from Russia by our subsidiaries are summarized as follows:

	3 rd quarter of			
	2013	2012	2013	2012
	(thousands of barrels)		(thousands of tonnes)	
Exports of crude oil using Transneft export routes	44,046	6,009	57,196	7,803
Exports of crude oil bypassing Transneft.....	13,127	1,791	8,569	1,169
Total crude oil exports.....	57,173	7,800	65,765	8,972
Exports of refined products		5,728		5,263

	9 months of			
	2013		2012	
	(thousands of barrels)	(thousands of tonnes)	(thousands of barrels)	(thousands of tonnes)
Exports of crude oil using Transneft export routes	139,952	19,093	178,501	24,352
Exports of crude oil bypassing Transneft.....	35,609	4,858	19,945	2,721
Total crude oil exports.....	175,561	23,951	198,446	27,073
Exports of refined products	17,868		16,950	

In the nine months of 2013, the volume of our crude oil export from Russia decreased by 11.5%, compared to the nine months of 2012, and we exported 37.7% of our total domestic crude oil production (43.2% – in the nine months of 2012). The decrease of crude oil export was a result of higher sales in Russia and increase of throughput at our domestic refineries.

All the volume of crude oil exported bypassing Transneft in the periods considered was routed through our own export infrastructure.

In the nine months of 2013, the volume of our export of refined products from Russia increased by 918 thousand tonnes, or by 5.4%, compared to the nine months of 2012. Primarily, we export from Russia diesel fuel, fuel oil and gasoil. These products account for approximately 88.5% of our refined products export volumes.

In the nine months of 2013, our revenue from export of crude oil and refined products from Russia both to Group companies and third parties amounted to \$17,158 million and \$13,249 million, respectively (\$19,696 million for crude oil and \$12,695 million for refined products in the nine months of 2012).

Main macroeconomic factors affecting our results of operations

Changes in the price of crude oil and refined products

The price at which we sell crude oil and refined products is the primary driver of the Group's revenues. During the nine months of 2013, the Brent crude oil price fluctuated between \$96 and \$119 per barrel and reached its peak of \$119.03 in February. During the third quarter of 2013, the average price per barrel of the Brent crude oil was 7.7% higher than in the second quarter of 2013.

Substantially all the crude oil the Group exports is Urals blend. The following table shows the average crude oil and refined product prices in the periods considered.

	3 rd quarter of 2013	2012	Change, %	9 months of 2013	2012	Change, %
(in US dollars per barrel, except for figures in percent)						
Brent crude	110.29	109.50	0.7	108.46	112.21	(3.3)
Urals crude (CIF Mediterranean) ⁽¹⁾	109.85	109.13	0.7	107.78	111.09	(3.0)
Urals crude (CIF Rotterdam) ⁽¹⁾	109.36	108.69	0.6	107.29	110.71	(3.1)
(in US dollars per metric tonne, except for figures in percent)						
Fuel oil 3.5% (FOB Rotterdam).....	595.11	621.25	(4.2)	596.15	644.98	(7.6)
Diesel fuel 10 ppm (FOB Rotterdam).....	948.99	977.17	(2.9)	937.65	977.74	(4.1)
High-octane gasoline (FOB Rotterdam)	1,007.47	1,062.57	(5.2)	1,001.95	1,051.97	(4.8)

Source: Platts.

⁽¹⁾ The Company sells crude oil on foreign markets on various delivery terms. Thus, our average realized sale price of oil on international markets differs from the average prices of Urals blend on Mediterranean and Northern Europe markets.

Domestic crude oil and refined products prices

Substantially all crude oil produced in Russia is produced by vertically integrated oil companies such as ours. As a result, most transactions are between affiliated entities within vertically integrated groups. Thus, there is no concept of a benchmark domestic market price for crude oil. The price of crude oil that is produced but not refined or exported by one of the vertically integrated oil companies is generally determined on a transaction-by-transaction basis against a background of world market prices, but with no direct reference or correlation. At any time there may exist significant price differences between regions for similar quality crude oil as a result of the competition and economic conditions in those regions.

Domestic prices for refined products are determined to some extent by world market prices, but they are also directly affected by local demand and competition.

The table below represents average domestic wholesale prices of refined products in the periods considered.

	3 rd quarter of 2013	2012	Change, %	9 months of 2013	2012	Change, %
(in US dollars per metric tonne, except for figures in percent)						
Fuel oil.....	372.51	295.22	26.2	346.22	293.89	17.8
Diesel fuel.....	822.90	753.05	9.3	847.90	777.91	9.0
High-octane gasoline (Regular)	869.70	807.77	7.7	827.83	801.01	3.3
High-octane gasoline (Premium)	944.24	879.26	7.4	886.51	858.84	3.2

Source: InfoTEK (excluding VAT).

Changes in the US dollar-ruble exchange rate and inflation

A substantial part of our revenue is either denominated in US dollars or is correlated to some extent with US dollar crude oil prices, while most of our costs in the Russian Federation are settled in Russian rubles. Therefore, ruble inflation and movements of exchange rates can significantly affect the results of our operations. In particular, the appreciation of the ruble against the US dollar generally causes our costs to increase in US dollar terms, and vice versa. The devaluation of the purchasing power of the US dollar in the Russian Federation calculated on the basis of the ruble-dollar exchange rates and the level of inflation in Russia was 5.1% in the nine months of 2013, compared to the respective period of 2012.

The following table gives data on inflation in Russia and the change in the ruble-dollar exchange rate.

	3 rd quarter of		9 months of	
	2013	2012	2013	2012
Ruble inflation (CPI), %	1.2	1.9	4.7	5.2
Average exchange rate for the period (ruble to US dollar)	32.80	32.01	31.62	31.10
Exchange rate at the end of the period (ruble to US dollar).....	32.35	30.92	32.35	30.92

Tax burden

The following table represents average enacted rates for taxes specific to the oil industry in Russia for the respective periods.

		3 rd quarter of		Change, %
		2013 ⁽¹⁾	2012 ⁽¹⁾	
Export tariffs on crude oil.....	\$/tonne	383.04	366.27	4.6
Export tariffs on refined products				
Middle distillates (jet fuel), diesel fuel and gasoils	\$/tonne	252.74	241.70	4.6
Light distillates				
gasoline	\$/tonne	344.70	329.63	4.6
straight-run gasoline.....	\$/tonne	344.70	329.63	4.6
Liquid fuels (fuel oil).....	\$/tonne	252.74	241.70	4.6
Mineral extraction tax				
Crude oil	RUR/tonne	5,631.24	5,146.30	9.4
Natural gas	RUR/1,000 m ³	402.00	251.00	60.2

⁽¹⁾ Average values.

		9 months of		Change, %
		2013 ⁽¹⁾	2012 ⁽¹⁾	
Export tariffs on crude oil.....	\$/tonne	389.70	403.30	(3.4)
Export tariffs on refined products				
Middle distillates (jet fuel), diesel fuel and gasoils	\$/tonne	257.18	266.14	(3.4)
Light distillates				
gasoline	\$/tonne	350.73	362.95	(3.4)
straight-run gasoline.....	\$/tonne	350.73	362.95	(3.4)
Liquid fuels (fuel oil).....	\$/tonne	257.18	266.14	(3.4)
Mineral extraction tax				
Crude oil	RUR/tonne	5,281.73	5,085.65	3.9
Natural gas	RUR/1,000 m ³	311.17	251.00	24.0

⁽¹⁾ Average values.

Tax rates set in rubles and translated at the average exchange rates are as follows:

		3 rd quarter of		Change, %
		2013 ⁽¹⁾	2012 ⁽¹⁾	
Mineral extraction tax				
Crude oil	\$/tonne	171.70	160.79	6.8
Natural gas	\$/1,000 m ³	12.26	7.84	56.4

⁽¹⁾ Average values.

		9 months of		Change, %
		2013 ⁽¹⁾	2012 ⁽¹⁾	
Mineral extraction tax				
Crude oil	\$/tonne	167.05	163.53	2.2
Natural gas	\$/1,000 m ³	9.84	8.07	21.9

⁽¹⁾ Average values.

The rates of taxes specific to the oil industry in Russia are linked to international crude oil prices and are changed in line with them. The methods to determine the rates for such taxes are presented below.

Crude oil extraction tax rate is determined by adjusting the base rate depending on the international market price of Urals blend and the ruble exchange rate. The tax rate is zero when the average Urals blend international market price for a tax period is less than or equal to \$15.00 per barrel. Each \$1.00 per barrel increase in the international Urals blend price over the threshold (\$15.00 per barrel) results in an increase of the tax rate by \$1.80 per tonne extracted (or \$0.25 per barrel extracted using a conversion factor of 7.33) above the base rate.

In the nine months of 2013, the base rate was 470 rubles per metric tonne extracted (446 rubles in the nine months of 2012).

The crude oil extraction tax rate varies depending on the development and depletion of a particular oilfield. The tax rate is zero for extra-heavy crude oil and for crude oil produced in certain regions of Eastern Siberia, the Caspian Sea and the Nenetsky Autonomous District, depending on the period and volume of production.

The Group produces crude oil in the Caspian Sea and benefits from application of zero extraction tax rate.

Natural gas extraction tax rate. The mineral extraction tax on natural gas produced by independent producers in Russia is calculated using a flat rate. Since July 2013, the rate is set at 402 rubles per thousand cubic meters. In the first half of 2013, the rate was 265 rubles per thousand cubic meters, while in 2012 the rate amounted to 251 rubles.

Crude oil export duty rate is calculated on a progressive scale. The rate is zero when the average Urals blend international market price is less than or equal to approximately \$15.00 per barrel (\$109.50 per metric tonne). If the Urals blend price is between \$15.00 and \$20.00 per barrel (\$146.00 per metric tonne), each \$1.00 per barrel increase in the Urals blend price over \$15.00 results in an increase of the crude oil export duty rate by \$0.35 per barrel exported. If the Urals blend price is between \$20.00 and \$25.00 per barrel (\$182.50 per metric tonne), each \$1.00 per barrel increase in the Urals blend price over \$20.00 results in an increase of the crude oil export duty rate by \$0.45 per barrel exported. Each \$1.00 per barrel increase in the Urals blend price over \$25.00 per barrel results in an increase of the crude oil export duty rate no more than by \$0.65 per barrel exported. Starting from October 1, 2011, the maximum increase of export duty rate is \$0.60 per barrel for each \$1.00 per barrel increase in the Urals blend price.

The crude oil export duty rate is revised monthly on the basis of the immediately preceding one-month period of crude oil price monitoring.

A special export duty regime is in place for certain greenfields. The list of the oilfields where the reduced rate applies includes our Yu. Korchagin and V. Filanovsky oilfields located in the Caspian Sea.

Export duty rates on refined products prior to 2011 were set by the Russian government. The rate of export duty depended on internal demand for refined products and international crude oil market conditions. Starting from 2011, export duty rates on refined products are calculated by multiplying the current crude oil export duty rate by a coefficient according to the table below.

Multiplier for:

Light distillates (except for gasolines), middle distillates (jet fuel), diesel fuel, gasoils, liquid fuels (fuel oil), motor and other oils, other products	0.660
Gasolines	0.900

Crude oil and refined products exported to the member countries of the Custom Union – Belarus and Kazakhstan, are not subject to export duties.

Excise on refined products. The responsibility to pay excises on refined products in Russia is imposed on refined product producers (except for straight-run gasoline). Only domestic sales volumes are subject to excises.

In other countries where the Group operates, excises are paid either by producers or retailers depending on the local legislation.

Excise rates on refined products in Russia are tied to the ecological class of fuel. Excise tax rates for the respective periods of 2013 and 2012 are listed below:

		3 rd quarter of		Change,	9 months of		Change,
		2013	2012	%	2013	2012	%
Gasoline							
Below Euro-3.....	RUR/tonne	10,100.00	8,225.00	22.8	10,100.00	7,892.88	28.0
Euro-3.....	RUR/tonne	9,750.00	7,882.00	23.7	9,750.00	7,549.88	29.1
Euro-4.....	RUR/tonne	8,960.00	6,822.00	31.3	8,694.80	6,822.00	27.5
Euro-5.....	RUR/tonne	5,750.00	5,143.00	11.8	5,347.56	6,258.25	(14.6)
Diesel fuel							
Below Euro-3.....	RUR/tonne	5,860.00	4,300.00	36.3	5,860.00	4,165.82	40.7
Euro-3.....	RUR/tonne	5,860.00	4,300.00	36.3	5,860.00	3,977.18	47.3
Euro-4.....	RUR/tonne	5,100.00	3,562.00	43.2	4,989.94	3,562.00	40.1
Euro-5.....	RUR/tonne	4,500.00	2,962.00	51.9	4,389.94	3,360.54	30.6
Motor oils.....	RUR/tonne	7,509.00	6,072.00	23.7	7,509.00	6,072.00	23.7
Straight-run gasoline.....	RUR/tonne	10,229.00	7,824.00	30.7	10,229.00	7,824.00	30.7

		3 rd quarter of		Change,	9 months of		Change,
		2013	2012	%	2013	2012	%
Gasoline							
Below Euro-3.....	\$/tonne	307.95	256.97	19.8	319.45	253.80	25.9
Euro-3.....	\$/tonne	297.28	246.26	20.7	308.38	242.77	27.0
Euro-4.....	\$/tonne	273.19	213.14	28.2	275.00	219.37	25.4
Euro-5.....	\$/tonne	175.32	160.68	9.1	169.14	201.24	(16.0)
Diesel fuel							
Below Euro-3.....	\$/tonne	178.67	134.34	33.0	185.34	133.96	38.4
Euro-3.....	\$/tonne	178.67	134.34	33.0	185.34	127.89	44.9
Euro-4.....	\$/tonne	155.50	111.29	39.7	157.82	114.54	37.8
Euro-5.....	\$/tonne	137.20	92.54	48.3	138.85	108.06	28.5
Motor oils.....	\$/tonne	228.95	189.71	20.7	237.50	195.25	21.6
Straight-run gasoline.....	\$/tonne	311.88	244.45	27.6	323.53	251.59	28.6

Income tax. The federal income tax rate is 2.0% and the regional income tax rate varies between 13.5% and 18.0%. The Group's foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

Until January 1, 2012, there were no provisions in the taxation legislation of the Russian Federation to permit the Group to reduce taxable profits of a Group company by offsetting tax losses of another Group company against such profits. Tax losses could be fully or partially used to offset taxable profits in the same company in any of the ten years following the year of loss.

Starting from January 1, 2012, if certain conditions are met, taxpayers are able to pay income tax as a consolidated taxpayers' group ("CTG"). This allows taxpayers to offset taxable losses generated by certain participants of a CTG against taxable profits of other participants of the CTG. Certain Group companies met the legislative requirements and pay income tax as a CTG starting from the first quarter of 2012.

Losses generated by a taxpayer before joining a CTG are not available for offset against taxable profits of other participants of the CTG. However, if a taxpayer leaves a CTG, such losses again become available for offset against future profits generated by the same taxpayer. The expiration period of the losses is extended to take account of any time spent within a CTG when the losses were unavailable for use.

Transportation of crude oil and refined products in Russia

The main Russian crude oil production regions are remote from the main crude oil and refined products markets. Therefore, access by crude oil production companies to the markets is dependent on the extent of diversification of the transport infrastructure and access to it. As a result, transportation cost is an important macroeconomic factor affecting our net income.

Transportation of crude oil produced in Russia to refineries and export destinations is performed primarily through the trunk oil pipeline system of state-owned OAO AK Transneft or by railway transport.

Transportation of refined products in Russia is performed by railway transport and the pipeline system of OAO AK Transnefteproduct. The Russian railway infrastructure is owned and operated by OAO Russian Railways. Both these companies are state-owned. We transport the major part of our refined products by railway transport.

In Russia, the gas is mostly sold at the wellhead and then transported through the Unified Gas Supply System (“UGSS”). The UGSS is responsible for gathering, transporting, dispatching and delivering substantially all natural gas supplies in Russia and is owned and operated by OAO Gazprom (“Gazprom”). The Federal Service for Tariffs of the Russian Federation regulates natural gas transportation tariffs. We are not able to sell our gas other than through UGSS.

Three and nine months ended September 30, 2013, compared to three and nine months ended September 30, 2012

The table below sets forth data from our consolidated statements of comprehensive income for the periods indicated.

	3 rd quarter of		9 months of	
	2013	2012	2013	2012
	(millions of US dollars)			
Revenues				
Sales (including excise and export tariffs).....	36,737	35,494	105,560	103,152
Costs and other deductions				
Operating expenses.....	(2,514)	(2,349)	(7,480)	(6,891)
Cost of purchased crude oil, gas and products.....	(17,176)	(16,343)	(48,741)	(47,127)
Transportation expenses	(1,503)	(1,523)	(4,715)	(4,625)
Selling, general and administrative expenses	(979)	(904)	(2,817)	(2,665)
Depreciation, depletion and amortization	(1,545)	(1,309)	(4,358)	(3,581)
Taxes other than income taxes.....	(3,591)	(3,309)	(10,370)	(10,248)
Excise and export tariffs	(5,664)	(5,591)	(16,952)	(17,258)
Exploration expense	(65)	(52)	(203)	(199)
(Loss) gain on disposals and impairments of assets	(43)	(29)	(33)	137
Income from operating activities.....	3,657	4,085	9,891	10,695
Interest expense	(127)	(109)	(345)	(430)
Interest and dividend income.....	62	62	181	194
Equity share in income of affiliates	133	64	430	408
Currency translation gain (loss).....	57	(97)	(339)	(493)
Other non-operating income (expense).....	71	41	252	(26)
Income before income taxes.....	3,853	4,046	10,070	10,348
Current income taxes	(325)	(613)	(1,629)	(2,205)
Deferred income taxes	(432)	37	(665)	89
Total income tax expense	(757)	(576)	(2,294)	(2,116)
Net income.....	3,096	3,470	7,776	8,232
Net loss attributable to non-controlling interests	9	39	14	84
Net income attributable to OAO LUKOIL	3,105	3,509	7,790	8,316
Earning per share of common stock attributable to OAO LUKOIL (in US dollars):				
Basic	4.11	4.65	10.32	10.91
Diluted.....	4.02	4.55	10.10	10.68

The analysis of the main financial indicators of the financial statements is provided below.

Sales revenues

Sales breakdown	3 rd quarter of		9 months of	
	2013	2012	2013	2012
	(millions of US dollars)			
Crude oil				
Export and sales on international markets other than CIS	6,135	6,265	16,217	18,948
Export and sales to CIS	543	395	1,308	1,243
Domestic sales	962	446	2,158	1,093
	7,640	7,106	19,683	21,284
Refined products				
Export and sales on international markets				
Wholesale	19,394	19,075	58,465	55,957
Retail	2,931	2,867	8,107	7,973
Domestic sales				
Wholesale	2,127	2,303	5,909	5,854
Retail	2,506	2,249	6,969	6,276
	26,958	26,494	79,450	76,060
Petrochemicals				
Export and sales on international markets	235	232	707	776
Domestic sales	220	73	680	191
	455	305	1,387	967
Gas and gas products				
Export and sales on international markets	587	565	1,671	1,781
Domestic sales	282	276	827	789
	869	841	2,498	2,570
Sales of energy and related services	303	296	1,088	983
Other				
Sales on international markets	315	238	866	659
Domestic sales	197	214	588	629
	512	452	1,454	1,288
Total sales	36,737	35,494	105,560	103,152

Sales volumes	3 rd quarter of		9 months of	
	2013	2012	2013	2012
Crude oil	(thousands of barrels)			
Export and sales on international markets other than CIS	55,165	57,745	150,602	172,306
Export and sales to CIS	10,225	7,103	25,743	23,903
Domestic sales	18,061	8,356	43,621	21,763
	83,451	73,204	219,966	217,972
Crude oil	(thousands of tonnes)			
Export and sales on international markets other than CIS	7,526	7,878	20,546	23,507
Export and sales to CIS	1,395	969	3,512	3,261
Domestic sales	2,464	1,140	5,951	2,969
	11,385	9,987	30,009	29,737
Refined products	(thousands of tonnes)			
Export and sales on international markets				
Wholesale	22,553	21,541	68,131	63,304
Retail	1,765	1,765	4,928	4,908
Domestic sales				
Wholesale	3,106	3,333	8,436	8,505
Retail	2,461	2,338	6,763	6,463
	29,885	28,977	88,258	83,180
Total sales volume of crude oil and refined products	41,270	38,964	118,267	112,917

Realized average sales prices	3 rd quarter of		9 months of		
	2013	2012	2013	2012	
Average realized price international					
Oil (excluding CIS)	(\$/barrel)	111.23	108.52	107.69	109.97
Oil (CIS)	(\$/barrel)	53.05	55.49	50.81	51.99
Refined products					
Wholesale	(\$/tonne)	859.92	885.54	858.12	883.94
Retail	(\$/tonne)	1,660.86	1,624.55	1,645.17	1,624.60
Average realized price within Russia					
Oil.....	(\$/barrel)	53.28	53.32	49.47	50.21
Refined products					
Wholesale	(\$/tonne)	684.96	690.96	700.48	688.25
Retail	(\$/tonne)	1,018.02	962.37	1,030.45	971.17

During the third quarter of 2013, our revenues increased by \$1,243 million, or by 3.5%, compared to the same period of 2012. Our revenues from crude oil sales increased by \$534 million, or by 7.5%, due to the increase in sales volumes. Our revenues from sales of refined products increased by \$464 million, or by 1.8%, also as a result of the increased trading volumes.

During the nine months of 2013, our revenues increased by \$2,408 million, or by 2.3%, compared to the same period of 2012. Crude oil sales decreased by \$1,601 million, or by 7.5%, while refined products sales increased by \$3,390 million, or by 4.5%, mostly due to the increase of refined products share in our trading operations.

Sales of crude oil

Our sales volumes outside of Russia didn't change significantly, compared to the third quarter of 2012, neither did our sales revenue. Compared to the nine months of 2012, our international sales volumes decreased by 2,710 thousand tonnes, or by 10.1%, due to decreased export from Russia together with the increased supplies of own crude oil to our overseas refineries. Along with the decrease in crude oil prices, this led to the decrease in our international sales revenue by 13.2%, or by \$2,666 million. At the same time, domestic sales volumes increased more than two-fold, compared both to the third quarter and the nine months of 2012, due to significant increase of domestic demand and increase of crude oil production in Russia. As a result, in the third quarter and the nine months of 2013, our domestic sales revenue increased by 115.7%, or by \$516 million, and by 97.4%, or by \$1,065 million, respectively.

In the third quarter and the nine months of 2013, our revenue from crude oil export from Russia both to the Group companies and third parties amounted to \$5,808 million and \$17,158 million, respectively.

Sales of refined products

Compared to the same periods of 2012, our revenue from the wholesale of refined products outside of Russia increased by \$319 million, or by 1.7%, in the third quarter of 2013 and by \$2,508 million, or by 4.5%, in the nine months of 2013. The main reason for this was the increase in sales volumes by 4.7%, compared to the third quarter of 2012, and by 7.6%, compared to the nine months of 2012, due to the increase in volumes of refined products trading. At the same time, our realized wholesale prices decreased by 2.9%, compared both to the third quarter and the nine months of 2012.

Compared to the third quarter and the nine months of 2012, neither our retail volumes nor retail prices outside of Russia changed significantly, therefore, our international retail sales revenue remained on the level of the respective periods of 2012.

Compared to the third quarter of 2012, our revenue from the wholesale of refined products on the domestic market decreased by \$176 million, or by 7.6%, as a result of a decrease in sales volumes by 227 thousand tonnes, or by 6.8%. Compared to the nine months of 2012, our domestic wholesale revenue did not change significantly.

Our revenue from retail sales in Russia increased by \$257 million, or by 11.4%, in the third quarter of 2013 and by \$693 million, or by 11.0%, in the nine months of 2013. Retail sales volumes increased by 5.3% in the third quarter of 2013 and by 4.6% in the nine months of 2013 resulting from the increase in domestic demand for motor fuels. Average retail prices in Russia increased by 5.8%, compared to the third quarter of 2012, and by 6.1%, compared to the nine months of 2012.

In the third quarter and the nine months of 2013, our revenue from export of refined products from Russia both to Group companies and third parties amounted to \$4,297 million and \$13,249 million, respectively.

Sales of petrochemical products

Our revenue from sales of petrochemical products increased by \$150 million, or by 49.2%, in the third quarter of 2013 and by \$420 million, or by 43.4%, in the nine months of 2013. That was mainly a result of a sharp increase in domestic sales volumes after resuming the production at our petrochemical plant in Stavropol region of Russia in the end of the third quarter of 2012. At the same time, in the third quarter and the nine months of 2013, our international sales volumes decreased by 14.9% and by 23.5%, respectively, due to a temporary shutdown of our petrochemical plant Karpatnaftochim Ltd. in Ukraine, which resulted from unfavorable economic conditions.

Sales of gas and gas products

Sales of gas and gas refined products increased by \$28 million, or by 3.3%, in the third quarter of 2013 and decreased by \$72 million, or by 2.8%, in the nine months of 2013.

Gas products wholesales revenue decreased by \$25 million, or by 8.0%, in the third quarter of 2013 and by \$148 million, or by 15.0%, in the nine months of 2013. Average realized wholesale prices increased by 8.5% in the third quarter of 2013 and decreased by 4.0% in the nine months of 2013. Our gas products wholesale volumes decreased by 15.3% in the third quarter of 2013 and by 11.4% in the nine months of 2013 as a result of planned overhauls performed at our gas processing plants in Ural region and Western Siberia in 2013.

Retail gas products revenue increased by \$10 million, or by 6.1%, in the third quarter of 2013 and by \$13 million, or by 2.9%, in the nine months of 2013.

Natural gas sales revenue increased by \$43 million, or by 11.4%, in the third quarter of 2013 and by \$63 million, or by 5.5%, in the nine months of 2013 as a result of the increase in natural gas sales price in Russia, compared to the respective periods of 2012.

Sales of energy and related services

Our revenue from sales of electricity, heat and related services increased by \$7 million, or by 2.4%, in the third quarter of 2013 and by \$105 million, or by 10.7%, in the nine months of 2013 due to commissioning of a combined cycle gas turbine unit with a capacity of 410 MW in 2012 in Krasnodar, Russia and consequent increase in volumes of power and capacity generation in 2013.

Sales of other products

Other sales include non-petroleum sales through our retail network, transportation services, rental revenue, crude oil extraction services, and other revenue of our production and marketing companies from sales of goods and services not related to our primary activities.

In the third quarter of 2013, other sales increased by \$60 million, or by 13.3%, and in the nine months of 2013, they increased by \$166 million, or by 12.9%.

Since obtaining control over the ISAB in September 2012, other sales include revenue from processing services, rendered by this refinery complex. In the third quarter and the nine months of 2013, the amount of this revenue totaled \$56 million and \$158 million, respectively.

Operating expenses

Operating expenses include the following:

	3 rd quarter of		9 months of	
	2013	2012	2013	2012
	(millions of US dollars)			
Hydrocarbon extraction expenses	1,103	971	3,190	2,821
Own refining expenses.....	540	430	1,603	1,108
Refining expenses at third parties and affiliated refineries	66	194	226	720
Cost of processing operations at ISAB.....	47	16	138	16
Expenses for crude oil transportation to refineries.....	307	325	980	914
Power generation and distribution expenses	160	146	524	463
Petrochemical expenses	79	72	231	230
Other operating expenses.....	212	195	588	619
Total operating expenses	2,514	2,349	7,480	6,891

The method of allocation of operating expenses above differs from the approach used in preparing the data for Note 20 "Segment information" to our interim consolidated financial statements. Expenditures in the segment reporting are grouped depending on the segment to which a particular company belongs. Operating expenses for the purposes of this analysis are grouped based on the nature of the costs incurred.

Our operating expenses increased by \$165 million, or by 7.0%, in the third quarter of 2013 and by \$589 million, or by 8.5%, in the nine months of 2013.

Hydrocarbon extraction expenses

Our extraction expenses include expenditures related to repairs of extraction equipment, labor costs, expenses on artificial stimulation of reservoirs, fuel and electricity costs, cost of extraction of natural gas liquids, property insurance of extraction equipment and other similar costs.

In the third quarter of 2013, our extraction expenses increased by \$132 million, or by 13.6%, and in the nine months of 2013, our extraction expenses increased by \$369 million, or by 13.1%, as a result of the increase in energy costs triggered by the tariffs growth, repairs and artificial stimulation of reservoirs. During the nine months of 2013, \$43 million of the extraction expenses growth refer to ZAO Samara-Nafta, acquired in April 2013. Our average hydrocarbon extraction cost increased from \$5.05 per BOE to \$5.67 per BOE in the third quarter of 2013, or by 12.3%, and from \$4.92 per BOE to \$5.52 per BOE in the nine months of 2013, or by 12.2%.

Own refining expense

Our own refining expenses increased by \$110 million, or by 25.6%, in the third quarter of 2013, and by \$495 million, or by 44.7%, in the nine months of 2013.

Refining expenses at our domestic refineries decreased by 4.8%, or by \$15 million, in the third quarter of 2013, largely, as a result of decreased consumption and cost of additives, but were stable, compared to the nine months of 2012.

Refining expenses at our international refineries increased by 104.2%, or by \$125 million, in the third quarter of 2013, and by 180.7%, or by \$488 million, in the nine months of 2013. The increase was mainly due to obtaining control over ISAB in September 2012 (see *Refining, marketing and trading* section for details).

Refining expenses at third party and affiliated refineries

Along with our own production of refined products we refine crude oil at third party and affiliated refineries.

In the third quarter and the nine months of 2013, refining expenses at third party and affiliated refineries decreased by 66.0%, or by \$128 million, and by 68.6%, or by \$494 million, respectively as a result of obtaining control over ISAB in September 2012 (see *Refining, marketing and trading* section for details).

Expenses for crude oil transportation to refineries

Expenses for crude oil transportation to refineries include pipeline, railway, freight and other costs related to delivery of the Group's own crude oil to refineries for further processing.

Our expenses for crude oil transportation to refineries decreased by \$18 million, or by 5.5%, in the third quarter of 2013 and increased by \$66 million, or by 7.2%, in the nine months of 2013, largely due to the changes in volume of supplies of crude oil produced by the Group in Russia to our international refineries, compared to the respective periods of 2012.

Power generation and distribution expenses

Power generation and distribution expenses increased by \$14 million, or by 9.6%, in the third quarter of 2013 and by \$61 million, or by 13.2%, in the nine months of 2013 due to commissioning of a combined cycle gas turbine unit with a capacity of 410 MW in 2012 in Krasnodar, Russia and consequent increase in volumes of power generation in 2013.

Other operating expenses

Other operating expenses include expenses of the Group's upstream and downstream entities that do not relate to their core activities, namely rendering of transportation and extraction services, costs of other services provided and goods sold by our production and marketing companies, and of non-core businesses of the Group.

Other operating expenses increased by \$17 million, or by 8.7%, in the third quarter of 2013, and decreased by \$31 million, or by 5.0%, in the nine months of 2013.

Cost of purchased crude oil, gas and products

Cost of purchased crude oil, gas and products includes cost of crude oil and refined products purchased for trading or refining, gas and fuel oil to supply our power generation entities and the result of hedging of crude oil and refined products sales.

Cost of purchased crude oil, gas and products increased by \$833 million, or by 5.1%, in the third quarter of 2013 and by \$1,614 million, or by 3.4%, in the nine months of 2013, driven mainly by the increase in the refined products trading volumes.

In the third quarter of 2013, we recognized a \$185 million net loss from hedging, compared to a \$534 million net loss in the third quarter of 2012. At the same time, in the nine months of 2013, we recognized a \$104 million net loss from hedging, compared to a net loss of \$452 million in the nine months of 2012.

Transportation expenses

Our transportation expenses decreased by \$20 million, or by 1.3%, compared to the third quarter of 2012, and increased by \$90 million, or by 1.9%, compared to the nine months of 2012.

Our actual transportation expenses related to crude oil and refined products deliveries to various export destinations, weighted by volumes transported, changed to the nine months of 2012 as follows: crude oil pipeline tariffs decreased by 1.0%, railway tariffs for refined products transportation increased by 6.1%, crude oil freight rates increased by 2.0%, and refined products freight rates decreased by 7.2%.

Selling, general and administrative expenses

Selling, general and administrative expenses include payroll costs (excluding extraction entities' and refineries' production staff costs), insurance costs (except for property insurance related to extraction and refinery equipment), costs of maintenance of social infrastructure, movement in bad debt provision and other expenses.

Our selling, general and administrative expenses increased by \$75 million, or by 8.3%, in the third quarter of 2013 and by \$152 million, or by 5.7%, in the nine months of 2013.

Depreciation, depletion and amortization

Our depreciation, depletion and amortization expenses increased by \$236 million, or by 18.0%, compared to the third quarter of 2012, and by \$777 million, or by 21.7%, compared to the nine months of 2012. This was mainly caused by acquisition of ZAO Samara-Nafta, the increase of production from Yu. Korchagin field in the Caspian Sea and the effect of obtaining control over ISAB in September 2012.

Equity share in income of affiliates

The Group has investments in equity method affiliates and corporate joint ventures. These 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. Our largest affiliates are Turgai Petroleum and Tengizchevroil, exploration and production companies operating in Kazakhstan, and Zeeland Refinery. Starting from September 2012, we do not include the results of ISAB in equity share in income of affiliates (see *Refining, marketing and trading* section for details).

Our share in income of affiliates increased by \$69 million, or by 107.8%, compared to the third quarter of 2012, and by \$22 million, or by 5.4%, compared to the nine months of 2012. The main reason for this was a sharp increase in income of Turgai Petroleum against the background of low net income due to the additional excess profit tax for prior periods accrued by Turgai Petroleum in the third quarter of 2012.

Taxes other than income taxes

	3 rd quarter of		9 months of	
	2013	2012	2013	2012
(millions of US dollars)				
In Russia				
Mineral extraction taxes.....	3,250	2,967	9,256	9,193
Social security taxes and contributions.....	120	114	427	397
Property tax.....	128	128	397	379
Other taxes.....	19	20	71	59
Total in Russia	3,517	3,229	10,151	10,028
International				
Mineral extraction taxes.....	18	25	55	71
Social security taxes and contributions.....	30	28	90	77
Property tax.....	8	5	24	16
Other taxes.....	18	22	50	56
Total internationally	74	80	219	220
Total	3,591	3,309	10,370	10,248

In the third quarter of 2013, taxes other than income taxes increased by 8.5%, or by \$282 million, compared to the third quarter of 2012. Compared to the nine months of 2012, they increased by 1.2%, or by \$122 million. This was a result of the increase of mineral extraction tax rate and of crude oil production volumes in Russia following the acquisition of ZAO Samara-Nafta.

In the third quarter and the nine months of 2013, application of the reduced rate for crude oil produced from depleted oilfields and zero rate for crude oil produced from oilfields with extra heavy crude oil and from greenfields led to \$517 million and \$1,421 million mineral extraction tax reduction, respectively (\$385 million and \$1,100 million in the third quarter and the nine months of 2012, respectively). Of this amount, \$58 million in the third quarter of 2013 and \$171 million in the nine months of 2013 refer to the production from the Yu. Korchagin field in the Caspian Sea (\$44 million and \$82 million in the third quarter and the nine months of 2012, respectively).

Excise and export tariffs

	3 rd quarter of		9 months of	
	2013	2012	2013	2012
(millions of US dollars)				
In Russia				
Excise tax on refined products.....	513	456	1,438	1,471
Crude oil export tariffs.....	2,613	2,713	7,720	8,883
Refined products export tariffs	1,422	1,318	4,629	3,996
Total in Russia	4,548	4,487	13,787	14,350
International				
Excise tax and sales taxes on refined products.....	990	918	2,741	2,403
Crude oil export tariffs.....	67	66	188	218
Refined products export tariffs	59	120	236	287
Total internationally	1,116	1,104	3,165	2,908
Total	5,664	5,591	16,952	17,258

In the third quarter of 2013, our export tariffs decreased by \$56 million, or by 1.3%, as a result of the decrease of crude oil export by 13.1%, that outweighed the increase of export duty rate. In the nine months of 2013, our crude oil export tariffs decreased by \$611 million, or by 4.6%, as a result of the decrease in both export duty rates and export volumes. At the same time, our refined products export tariffs increased as a result of higher volumes of export outside the Customs Union.

The increase in excise tax expense outside of Russia, compared to the respective periods of 2012, was a result of higher volume of sales subject to excises.

Although the excise rates for motor fuels except for Euro-5 gasoline increased, compared to the nine months of 2012, the increase of the share of Euro-5 motor fuels in our production in Russia let us decrease our excise expenses in the nine months of 2013, compared to the respective periods of 2012. In the nine months of 2013, all the gasoline produced by the Group in Russia complied with Euro-5 ecological class, while in the nine months of 2012 the share of Euro-5 gasoline was lower.

Other non-operating income (expense)

In the second quarter of 2013, we recognized an income of \$200 million related to preliminary results of the revaluation of the Group's 50% interest in ZAO Kama-oil as at the date of acquisition of the remaining 50% interest. The valuation was completed in the third quarter of 2013, and the final adjusted income from revaluation for the nine months of 2013 amounted to \$199 million.

Income taxes

In the third quarter of 2013, our total income tax expense increased by \$181 million, or by 31.4%, compared to the third quarter of 2012. At the same time, our income before income tax decreased by \$193 million, or by 4.8%.

In the nine months of 2013, our total income tax expense increased by \$178 million, or by 8.4%, compared to the nine months of 2012, while our income before income tax decreased by \$278 million, or by 2.7%.

In the third quarter of 2013, our effective income tax rate was 19.6%, compared to 14.2% in the third quarter of 2012, while in the nine months of 2013, our effective income tax rate was 22.8%, compared to 20.4% in the nine months of 2012. The maximum statutory rate for the Russian Federation is 20.0%. In the third quarter of 2012, our effective income tax rate was significantly influenced by taxable deductible currency translation losses reported by Russian subsidiaries.

Reconciliation of net income to EBITDA (earnings before interest, income taxes, depreciation and amortization)

	3 rd quarter of		9 months of	
	2013	2012	2013	2012
	(millions of US dollars)			
Net income	3,105	3,509	7,790	8,316
Add back:				
Income tax expense.....	757	576	2,294	2,116
Depreciation and amortization	1,545	1,309	4,358	3,581
Interest expense	127	109	345	430
Interest and dividend income	(62)	(62)	(181)	(194)
EBITDA	5,472	5,441	14,606	14,249

EBITDA is a non-US GAAP financial measure. EBITDA is defined as net income before interest, taxes and depreciation and amortization. The Company believes that EBITDA provides useful information to investors because it is an indicator of the strength and performance of our business operations, including our ability to finance capital expenditures, acquisitions and other investments and our ability to incur and service debt. While depreciation and amortization are considered as operating costs under US GAAP, these expenses primarily represent the non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods. The EBITDA calculation is commonly used as a basis for some investors, analysts and credit rating agencies to evaluate and compare the periodic and future operating performance and value of companies within the oil and gas industry. EBITDA should not be considered in isolation as an alternative to net income, operating income or any other measure of performance under US GAAP. EBITDA does not include our need to replace our capital equipment over time.

Liquidity and capital resources

	9 months of	
	2013	2012
	(millions of US dollars)	
Net cash provided by operating activities.....	12,918	12,830
Net cash used in investing activities.....	(13,895)	(8,472)
Net cash provided by (used in) financing activities.....	1,472	(4,724)

Operating activities

Our primary source of cash flow is funds generated from our operations. During the nine months of 2013, cash generated from operating activities did not change significantly, compared to the respective period of prior year, and amounted to \$12,918 million. During the nine months of 2012, the adverse impact of the increase of working capital on our cash flow from operating activity was insignificant and totaled \$14 million. At the same time, during the nine months of 2012, our cash flow from operating activity was supported by the decrease of working capital by \$685 million.

Investing activities

In the nine months of 2013, the increase in cash used in investing activities by 64.0%, compared to the respective period of the prior year, mainly resulted from increase in capital expenditures and acquisition of licenses, as well as acquisitions of subsidiaries.

Our capital expenditures, including non-cash transactions, amounted to \$10,728 million, which was 31.8% higher than in the nine months of 2012.

	3 rd quarter of		9 months of	
	2013	2012	2013	2012
	(millions of US dollars)			
Capital expenditures⁽¹⁾				
Exploration and production				
Russia	1,947	1,595	5,866	5,128
International.....	841	443	2,377	1,239
Total exploration and production	2,788	2,038	8,243	6,367
Refining, marketing and distribution				
Russia	487	397	1,281	829
International.....	279	95	604	390
Total refining, marketing and distribution	766	492	1,885	1,219
Chemicals				
Russia	18	24	52	47
International.....	1	5	2	16
Total chemicals.....	19	29	54	63
Power generation and distribution	86	88	201	312
Other	96	80	345	179
Total capital expenditures	3,755	2,727	10,728	8,140

⁽¹⁾Including non-cash transactions and prepayments.

Capital expenditures in exploration and production segment increased by \$1,876 million, or by 29.5%, in the nine months of 2013, compared to the nine months of 2012. In Russia, the increase was mostly due to higher volumes and cost of production drilling in Ural region, Komi Republic and Western Siberia. Internationally, the increase was largely related to investments in our West Kurnah-2 project in Iraq.

The increase in our refining, marketing and distribution capital expenditures in Russia refers to construction of deep conversion unit at our refinery in Volgograd and construction of catalytic cracking unit at Nizhny Novgorod refinery. Outside of Russia, the increase in our refining, marketing and distribution capital expenditures was mainly due to continued construction of a heavy residue processing complex at Bulgarian refinery.

Other capital expenditures refer to investments of OAO Arkhangelskgeoldobycha, a Group company, involved in diamond deposits development in the Arkhangelsk region of Russia.

The table below shows our exploration and production capital expenditures in promising new production regions.

	3 rd quarter of		9 months of	
	2013	2012	2013	2012
	(millions of US dollars)			
Yamal	60	85	268	402
Caspian region ⁽¹⁾	306	251	1,184	1,080
Ghana.....	7	4	15	13
Cote d'Ivoire.....	20	9	56	33
Iraq.....	431	233	1,450	604
Uzbekistan	185	89	444	335
Total.....	1,009	671	3,417	2,467

⁽¹⁾ Russian and international projects.

Also, in the nine months of 2013, a Group company paid \$835 million as a second 50% installment for the acquisition of the subsoil rights for the site that includes Imilorskoye, West Imilorskoye and Istochnoye fields in Western Siberia. The first 50% payment was made in December 2012.

	3 rd quarter of		9 months of	
	2013	2012	2013	2012
	(millions of US dollars)			
Acquisitions of subsidiaries and associates⁽¹⁾				
Exploration and production				
Russia	2	–	2,392	52
International.....	–	–	–	22
Total exploration and production.....	2	–	2,392	74
Refining, marketing and distribution				
Russia	218	–	291	22
International.....	1	610	1	645
Total refining, marketing and distribution	219	610	292	667
Less cash acquired	–	(3)	(15)	(19)
Total acquisitions.....	221	607	2,669	722

⁽¹⁾ Including prepayments related to acquisitions and non-cash transactions.

In the nine months of 2013, the Company spent \$2.1 billion for the acquisition of 100% of the shares of ZAO Samara-Nafta and \$266 million as the final installment within the acquisition of 50% of the shares of ZAO Kama-oil. In the nine months of 2012, the Group acquired additional 20% share in ISAB for \$609 million.

Financing activities

In the nine months of 2013, net movements of short-term and long-term debt generated an inflow of \$2,762 million, compared to an outflow of \$1,375 million in the nine months of 2012.

In the second quarter of 2013, a Group company issued two tranches of non-convertible bonds totaling \$3 billion. The first tranche totaling \$1.5 billion was placed with a maturity of 5 years and a coupon yield of 3.416% per annum. The second tranche totaling \$1.5 billion was placed with a maturity of 10 years and a coupon yield of 4.563% per annum. All bonds were placed at face value and have a half year coupon period.

In the nine months of 2012, we purchased Company's stock worth \$128 million and spent \$740 million for purchase of equity-linked notes.