OAO LUKOIL

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(prepared in accordance with US GAAP)

As of and for the three and nine month periods ended September 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 September 30, 2010, the related consolidated statements of income for the three-month and nine-month periods ended September 30, 2010 and 2009 and the related consolidated statements of stockholders' equity and comprehensive income and the related consolidated statements of cash flows for the nine-month periods ended September 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
November 29, 2010

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

	Note	As of September 30, 2010 (unaudited)	As of December 31, 2009
Assets			
Current assets			
Cash and cash equivalents	4	3,117	2,274
Short-term investments		168	75
Accounts and notes receivable, net	5	7,187	5,935
Inventories		5,739	5,432
Prepaid taxes and other expenses		2,420	3,549
Other current assets		616	574
Total current assets		**19,247**	**17,839**
Investments	6	5,528	5,944
Property, plant and equipment	7	53,769	52,228
Deferred income tax assets		656	549
Goodwill and other intangible assets	8	1,560	1,653
Other non-current assets		1,079	806
Total assets		**81,839**	**79,019**
Liabilities and Equity			
Current liabilities			
Accounts payable		6,338	4,906
Short-term borrowings and current portion of long-term debt	9	3,285	2,058
Taxes payable		1,922	1,828
Other current liabilities		1,550	902
Total current liabilities		**13,095**	**9,694**
Long-term debt	10, 13	7,338	9,265
Deferred income tax liabilities		2,172	2,080
Asset retirement obligations	7	1,546	1,189
Other long-term liabilities		371	412
Total liabilities		**24,522**	**22,640**
Equity	12		
OAO LUKOIL stockholders' equity			
Common stock		15	15
Treasury stock, at cost		(3,683)	(282)
Equity-linked notes		(980)	-
Additional paid-in capital		4,565	4,699
Retained earnings		57,026	51,634
Accumulated other comprehensive loss		(68)	(75)
Total OAO LUKOIL stockholders' equity		**56,875**	**55,991**
Noncontrolling interests		442	388
Total equity		**57,317**	**56,379**
Total liabilities and equity		**81,839**	**79,019**

President of OAO LUKOIL
Alekperov V.Y.

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 September 30, 2010 (unaudited)**	**For the three months ended Septemder 30, 2009 (unaudited)**	**For the nine months ended September 30, 2010 (unaudited)**	**For the nine months ended September 30, 2009 (unaudited)**
Revenues					
Sales (including excise and export tariffs)	19	26,517	21,941	76,272	56,802
Costs and other deductions					
Operating expenses		(2,192)	(1,907)	(5,994)	(5,015)
Cost of purchased crude oil, gas and products		(10,898)	(8,203)	(31,173)	(21,475)
Transportation expenses		(1,389)	(1,238)	(4,169)	(3,594)
Selling, general and administrative expenses		(902)	(878)	(2,557)	(2,398)
Depreciation, depletion and amortization		(1,054)	(998)	(3,114)	(3,001)
Taxes other than income taxes		(2,173)	(1,976)	(6,522)	(4,569)
Excise and export tariffs		(4,732)	(3,769)	(14,072)	(9,176)
Exploration expenses		(29)	(119)	(175)	(188)
Gain on disposals and impairments of assets		19	3	29	15
Income from operating activities		**3,167**	**2,856**	**8,525**	**7,401**
Interest expense		(162)	(169)	(535)	(503)
Interest and dividend income		46	40	144	105
Equity share in income of affiliates	6	99	88	335	270
Currency translation loss		(59)	(213)	(101)	(337)
Other non-operating income (expense)		300	(24)	225	37
Income before income taxes		**3,391**	**2,578**	**8,593**	**6,973**
Current income taxes		(538)	(593)	(1,678)	(1,430)
Deferred income taxes		(26)	73	18	(123)
Total income tax expense	3	**(564)**	**(520)**	**(1,660)**	**(1,553)**
Net income		**2,827**	**2,058**	**6,933**	**5,420**
Less: net income attributable to noncontrolling interests		(9)	(2)	(113)	(135)
Net income attributable to OAO LUKOIL		**2,818**	**2,056**	**6,820**	**5,285**
Basic and diluted earnings per share of common stock (US dollars) attributable to OAO LUKOIL:	12	3.46	2.43	8.16	6.24

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 and equity-linked notes	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total OAO LUKOIL stockholders' equity	Noncontrol-ling interests	Total equity
Nine months ended September 30, 2010								
Balance as of December 31, 2009	15	(282)	4,699	51,634	(75)	**55,991**	388	**56,379**
Net income	-	-	-	6,820	-	**6,820**	113	**6,933**
Prior service cost	-	-	-	-	6	**6**	-	**6**
Unrecognized gain on available for sale securities	-	-	-	-	1	**1**	-	**1**
Comprehensive income						**6,827**	113	**6,940**
Dividends on common stock	-	-	-	(1,428)	-	**(1,428)**	-	**(1,428)**
Effect of stock compensation plan	-	-	74	-	-	**74**	-	**74**
New shares issued	-	-	1	-	-	**1**	-	**1**
Stock and equity-linked notes purchased	-	(4,644)	-	-	-	**(4,644)**	-	**(4,644)**
Stock disposed	-	263	(70)	-	-	**193**	-	**193**
Changes in the noncontrolling interests	-	-	(139)	-	-	**(139)**	(59)	**(198)**
Balance as of September 30, 2010	**15**	**(4,663)**	**4,565**	**57,026**	**(68)**	**56,875**	**442**	**57,317**

	Common stock	Treasury stock and equity-linked notes	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total OAO LUKOIL stockholders' equity	Noncontrol-ling interests	Total equity
Nine months ended September 30, 2009								
Balance as of December 31, 2008	15	(282)	4,694	45,983	(70)	**50,340**	670	**51,010**
Net income	-	-	-	5,285	-	**5,285**	135	**5,420**
Prior service cost	-	-	-	-	9	**9**	-	**9**
Unrecognized loss on available for sale securities	-	-	-	-	(2)	**(2)**	-	**(2)**
Comprehensive income						**5,292**	135	**5,427**
Dividends on common stock	-	-	-	(1,360)	-	**(1,360)**	-	**(1,360)**
Effect of stock compensation plan	-	-	77	-	-	**77**	-	**77**
Changes in the noncontrolling interests	-	-	-	-	-	-	(316)	**(316)**
Balance as of September 30, 2009	**15**	**(282)**	**4,771**	**49,908**	**(63)**	**54,349**	**489**	**54,838**

	Share activity (thousands of shares)	
	Common stock	**Treasury stock**
Nine months ended September 30, 2010		
Balance as of December 31, 2009	850,563	(3,836)
Purchase of treasury stock	-	(68,912)
Disposal of treasury stock	-	3,540
Balance as of September 30, 2010	**850,563**	**(69,208)**
Nine months ended September 30, 2009		
Balance as of December 31, 2008	850,563	(3,836)
Balance as of September 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 nine months ended September 30, 2010 (unaudited)	For the nine months ended September 30, 2009 (unaudited)
Cash flows from operating activities			
Net income attributable to OAO LUKOIL		**6,820**	**5,285**
Adjustments for non-cash items:			
Depreciation, depletion and amortization		3,114	3,001
Equity share in income of affiliates, net of dividends received		387	(205)
Dry hole write-offs		97	114
Gain on disposals and impairments of assets		(29)	(15)
Deferred income taxes		(18)	123
Non-cash currency translation gain		(24)	(77)
Non-cash investing activities		(28)	(10)
All other items – net		290	112
Changes in operating assets and liabilities:			
Accounts and notes receivable		(1,252)	(1,964)
Inventories		(308)	(1,306)
Accounts payable		1,438	128
Taxes payable		97	428
Other current assets and liabilities		1,048	459
Net cash provided by operating activities		**11,632**	**6,073**
Cash flows from investing activities			
Acquisition of licenses		(12)	-
Capital expenditures		(4,656)	(4,631)
Proceeds from sale of property, plant and equipment		100	97
Purchases of investments		(212)	(177)
Proceeds from sale of investments		88	370
Sale of subsidiaries, net of cash disposed		123	5
Acquisitions of subsidiaries (including advances related to acquisitions), net of cash acquired		(56)	(2,031)
Net cash used in investing activities		**(4,625)**	**(6,367)**
Cash flows from financing activities			
Net movements of short-term borrowings		725	(1,101)
Proceeds from issuance of long-term debt		18	5,070
Principal repayments of long-term debt		(1,400)	(3,387)
Dividends paid on Company common stock		(817)	(661)
Dividends paid to noncontrolling interest stockholders		(59)	(50)
Financing received from related and third party noncontrolling interest stockholders		16	14
Purchase of Company's stock and equity-linked notes		(4,644)	-
Sale of Company's stock		193	-
Purchases of noncontrolling interests		(190)	(353)
Net cash used in financing activities		**(6,158)**	**(468)**
Effect of exchange rate changes on cash and cash equivalents		(6)	(24)
Net increase (decrease) in cash and cash equivalents		**843**	**(786)**
Cash and cash equivalents at beginning of year		2,274	2,239
Cash and cash equivalents at end of period	4	**3,117**	**1,453**

Supplemental disclosures of cash flow information		
Interest paid	504	1,209
Income taxes paid	1,487	987

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 nine-month period ended September 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 September 30, 2010 and December 31, 2009, exchange rates of 30.40 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.

Comparative amounts

Certain prior period amounts have been reclassified to conform with the current period's presentation.

Recent accounting pronouncements

In July 2010, the FASB issued Accounting Standards Update ("ASU") No. 2010-20, *"Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses,"* which amends Accounting Standards Codification ("ASC") No. 310, *"Receivables."* This ASU provides financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables and requires entities provide disclosures that facilitate financial statement users' evaluation of the following: 1) the nature of credit risk inherent in the entity's portfolio of financing receivables; 2) how that risk is analyzed and assessed in arriving at the allowance for credit losses; 3) the changes and reasons for those changes in the allowance for credit losses. The ASU No. 2010-20 is effective for the Group for the reporting periods ending after December 15, 2010. This ASU encourages, but does not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. The Group is currently assessing the effect of adoption of ASU No. 2010-20.

In February 2010, the FASB issued ASU No. 2010-09, *"Subsequent events"* which amends 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.

Note 2. Summary of significant accounting policies (continued)

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.

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.

(Millions of US dollars, unless otherwise noted)

Note 2. Summary of significant accounting policies (continued)

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.

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 noncontrolling 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 September 30, 2010	**As of December 31, 2009**
Cash held in Russian rubles	920	557
Cash held in other currencies	1,902	1,384
Cash of a banking subsidiary in other currencies	70	131
Cash held in related party banks in Russian rubles	206	174
Cash held in related party banks in other currencies	19	28
Total cash and cash equivalents	**3,117**	**2,274**

(Millions of US dollars, unless otherwise noted)

Note 5. Accounts and notes receivable, net

	As of September 30, 2010	As of December 31, 2009
Trade accounts and notes receivable (net of provisions of $224 million and $191 million as of September 30, 2010 and December 31, 2009, respectively)	5,797	4,389
Current VAT and excise recoverable	1,021	1,205
Other current accounts receivable (net of provisions of $54 million and $41 million as of September 30, 2010 and December 31, 2009, respectively)	369	341
Total accounts and notes receivable, net	**7,187**	**5,935**

Note 6. Investments

	As of September 30, 2010	As of December 31, 2009
Investments in equity method affiliates and joint ventures	4,310	4,754
Long-term loans given by non-banking subsidiaries	1,197	1,176
Other long-term investments	21	14
Total long-term investments	**5,528**	**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 September 30, 2010		For the three months ended September 30, 2009	
	Total	Group's share	Total	Group's share
Revenues	5,603	895	1,363	663
Income before income taxes	2,099	137	236	121
Less income taxes	(517)	(38)	(68)	(33)
Net income	**1,582**	**99**	**168**	**88**

	For the nine months ended September 30, 2010		For the nine months ended September 30, 2009	
	Total	Group's share	Total	Group's share
Revenues	17,261	2,638	3,314	1,600
Income before income taxes	6,498	478	694	367
Less income taxes	(1,817)	(143)	(195)	(97)
Net income	**4,681**	**335**	**499**	**270**

	As of September 30, 2010		As of December 31, 2009	
	Total	Group's share	Total	Group's share
Current assets	6,534	1,263	6,796	1,524
Property, plant and equipment	18,483	4,956	18,877	5,284
Other non-current assets	783	300	607	240
Total assets	25,800	6,519	26,280	7,048
Short-term debt	1,278	175	442	274
Other current liabilities	2,878	565	3,982	817
Long-term debt	8,004	962	7,769	732
Other non-current liabilities	1,938	507	1,633	471
Net assets	**11,702**	**4,310**	**12,454**	**4,754**

(Millions of US dollars, unless otherwise noted)

Note 6. Investments (continued)

In June 2009, a Group company entered into an agreement with Total S.A. to acquire a 45% interest in the TRN refinery in the Netherlands. The transaction was finalized in September 2009 in the amount of approximately $688 million (after completion adjustment). 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 allowed 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 September 30, 2010	**As of December 31, 2009**	**As of September 30, 2010**	**As of December 31, 2009**
Exploration and Production:				
Western Siberia	24,752	23,465	14,585	13,878
European Russia	25,883	24,908	17,796	17,761
International	7,029	6,371	5,572	5,170
Total	57,664	54,744	37,953	36,809
Refining, Marketing, Distribution and Chemicals:				
Western Siberia	5	6	3	5
European Russia	10,794	10,009	7,052	6,717
International	7,064	6,849	4,751	4,783
Total	17,863	16,864	11,806	11,505
Other:				
Western Siberia	186	186	94	94
European Russia	4,309	4,170	3,809	3,697
International	178	189	107	123
Total	4,673	4,545	4,010	3,914
Total property, plant and equipment	**80,200**	**76,153**	**53,769**	**52,228**

As of September 30, 2010 and December 31, 2009, the asset retirement obligation amounted to $1,556 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 nine-month periods ended September 30, 2010 and 2009, asset retirement obligations changed as follows:

	For the nine months ended September 30, 2010	**For the nine months ended September 30, 2009**
Asset retirement obligations as of January 1	1,199	728
Accretion expense	91	44
New obligations	117	45
Changes in estimates of existing obligations	170	258
Spending on existing obligations	(4)	(5)
Property dispositions	(1)	(8)
Foreign currency translation and other adjustments	(16)	(23)
Asset retirement obligations as of September 30	**1,556**	**1,039**

(Millions of US dollars, unless otherwise noted)

Note 8. Goodwill and other intangible assets

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

	As of September 30, 2010	As of December 31, 2009
Amortized intangible assets		
Software	380	419
Licenses and other assets	420	465
Goodwill	760	769
Total goodwill and other intangible assets	**1,560**	**1,653**

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

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

	As of September 30, 2010	As of December 31, 2009
Short-term borrowings from third parties	1,677	442
Short-term borrowings from affiliated companies	60	77
13.50% Russian ruble bonds	-	496
Current portion of long-term debt	1,548	1,043
Total short-term borrowings and current portion of long-term debt	**3,285**	**2,058**

Short-term borrowings from third parties are unsecured and include amounts repayable in US dollars of $1,616 million and $282 million, amounts repayable in Euro of $26 million and $76 million, amounts repayable in Russian rubles of nil and $18 million and amounts repayable in other currencies of $35 million and $66 million as of September 30, 2010 and December 31, 2009, respectively. The weighted-average interest rate on short-term borrowings from third parties was 1.78% and 2.02% per annum as of September 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. In June 2010, the Company redeemed all issued bonds in accordance with the conditions of the bond issue.

(Millions of US dollars, unless otherwise noted)

Note 10. Long-term debt

	As of September 30, 2010	As of December 31, 2009
Long-term loans and borrowings from third parties	4,602	4,043
Long-term loans and borrowings from related parties	-	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	263	265
13.35% Russian ruble bonds, maturing 2012	822	827
9.20% Russian ruble bonds, maturing 2012	329	331
7.40% Russian ruble bonds, maturing 2013	197	198
Capital lease obligations	182	215
Total long-term debt	8,886	10,308
Current portion of long-term debt	(1,548)	(1,043)
Total non-current portion of long-term debt	**7,338**	**9,265**

Long-term loans and borrowings

Long-term loans and borrowings from third parties include amounts repayable in US dollars of $2,445 million and $3,493 million, amounts repayable in Euro of $431 million and $487 million, amounts repayable in Russian rubles of $1,704 million (including loans from ConocoPhillips) and $42 million, and amounts repayable in other currencies of $22 million and $21 million as of September 30, 2010 and December 31, 2009, respectively. This debt has maturity dates from 2010 through 2038. The weighted-average interest rate on long-term loans and borrowings from third parties was 4.42% and 2.77% per annum as of September 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 10% of total long-term debt is secured by export sales and property, plant and equipment.

Group companies have a number of loan agreements nominated in Russian rubles with ConocoPhillips with an outstanding amount of $1,700 million as of September 30, 2010. This amount includes $1,458 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 8.0% 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.

Note 10. Long-term debt (continued)

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. This lump sum amount could be up to 2% of employee's annual salary for the period before October 1, 2010 and up to 4% in further periods. 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.

Components of net periodic benefit cost were as follows:

	For the three months ended September 30, 2010	For the three months ended September 30, 2009	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009
Service cost	4	4	12	12
Interest cost	6	5	19	16
Less expected return on plan assets	(3)	(2)	(8)	(7)
Amortization of prior service cost	3	2	10	8
Total net periodic benefit cost	**10**	**9**	**33**	**29**

Note 12. Stockholders' equity

Common stock

	As of September 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	(69,208)	(3,836)
Outstanding common stock	**781,355**	**846,645**

Note 12. Stockholders' equity (continued)

Earnings per share

The weighted average number of outstanding common shares was 814,427 thousand shares, 846,645 thousand shares, 836,177 thousand shares and 846,645 thousand shares for the three months ended September 30, 2010 and 2009 and for the nine months ended September 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 $656 million and $13 million are included in "Other current liabilities" in the consolidated balance sheets as of September 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.

Treasury shares

On July 28, 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 had 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.

On September 26, 2010, the Group company exercised its option to acquire shares from ConocoPhillips by sending a notice of exercise in respect of 42,500,000 LUKOIL ADRs (each representing one ordinary share of the Company). The Group company sold these ADRs to UniCredit Bank AG. These transactions were completed on September 29, 2010 when 42,500,000 LUKOIL ADRs were directly transferred to UniCredit Bank AG, and UniCredit Bank AG paid the purchase price of $2.38 billion to ConocoPhillips' subsidiary.

Simultaneously, UniCredit Bank AG issued a series of equity-linked notes to a Group company that are redeemable for 17,500,000 LUKOIL ADRs on or before September 29, 2011. These equity-linked notes have been classified within OAO LUKOIL stockholders' equity.

UniCredit Bank AG also issued an option to the Group company to purchase from UniCredit Bank AG an additional 25,000,000 LUKOIL ADRs on or before September 29, 2011. The option provides for the purchase of LUKOIL ADRs at market price with a floor of $56 per ADR and is not valid if the market price per ADR is $50 or below. This option currently has a fair value of zero.

A related party of the Group has equity-linked notes that are redeemable for 25,000,000 ADRs on or before September 29, 2011 should the Group company not exercise its option or the option becomes invalid. If the Group company exercises the option the related party will receive from UniCredit Bank AG the cash value of ADRs equivalent to that paid by the Group company.

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.

(Millions of US dollars, unless otherwise noted)

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 September 30, 2010 and December 31, 2009 was $8,941 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 nine months ended September 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 September 30, 2010				**As of December 31, 2009**			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Commodity derivatives	-	1,375	-	**1,375**	-	1,065	-	**1,065**
Total assets	**-**	**1,375**	**-**	**1,375**	**-**	**1,065**	**-**	**1,065**
Liabilities								
Commodity derivatives	-	(1,553)	-	**(1,553)**	-	(1,110)	-	**(1,110)**
Total liabilities	**-**	**(1,553)**	**-**	**(1,553)**	**-**	**(1,110)**	**-**	**(1,110)**
Net liabilities	**-**	**(178)**	**-**	**(178)**	**-**	**(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.

(Millions of US dollars, unless otherwise noted)

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 September 30, 2010 was:

	As of September 30, 2010
Assets	
Accounts receivable	1,375
Liabilities	
Accounts payable	1,553

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 $24 million and accounts payable in the amount of $202 million.

The gains and losses from commodity derivatives were included in the consolidated statements of income in "Cost of purchased crude oil, gas and products" and for the three and nine months ended September 30, 2010 were in the total amount of net loss of $187 million (of which realized gain was $15 million and unrealized loss was $202 million) and net gain of $60 million (of which realized gain was $192 million and unrealized loss was $132 million), respectively.

As of September 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 September 30, 2010 was not significant.

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

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.

Note 13. Financial and derivative instruments (continued)

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 September 30, 2010. The Group posted $10 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 September 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 $16 million in total.

Note 14. Business combinations

In the first quarter of 2009, the Group acquired a 100% interest 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 nine-month period ended September 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 originally 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 former 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.

NMNG's total assets were approximately $5.6 billion and $5.9 billion as of September 30, 2010 and December 31, 2009, respectively.

(Millions of US dollars, unless otherwise noted)

Note 15. Consolidation of Variable Interest Entity (continued)

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 September 30, 2010, borrowings under these agreements bear fixed interest in the range of 6.8% to 8.0% per annum.

As of September 30, 2010, the amount outstanding to ConocoPhillips from NMNG was $1,458 million, which consists of a number of loans with a weighted-average interest rate of 7.75% per annum. This amount is presented within “Long-term loans and borrowings from third parties.”

Note 16. Commitments and contingencies

Capital expenditure, exploration and investment programs

The Group owns and operates a number of assets under which it has commitments for capital expenditure in relation to its exploration and investment programs. They mainly relate to existing license agreements in the Russian Federation, production sharing agreements and long-term service contracts. The Group has a commitment to execute the capital construction program of its power generation segment. In addition to these, the Group has commitments to comply with the requirements of European Union legislation in relation to the quality of produced petroleum products and environmental protection which require it to upgrade its Bulgarian and Romanian refineries.

During the three-month period ended September 30, 2010, there were no significant changes in these commitments from those disclosed in the Group’s consolidated financial statements for the period ended June 30, 2010.

Operating lease obligations

Group companies have commitments of $904 million primarily for the lease of vessels and petroleum distribution outlets. Operating lease expenses were $43 million, $37 million, $113 million and $103 million for the three months ended September 30, 2010 and 2009 and for the nine months ended September 30, 2010 and 2009, respectively. Commitments for minimum rentals under these leases as of September 30, 2010 are as follows:

	As of September 30, 2010
For the three-months ending December 31, 2010	67
2011 fiscal year	215
2012 fiscal year	170
2013 fiscal year	127
2014 fiscal year	110
beyond	215

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.

Note 16. Commitments and contingencies (continued)

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.

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.

Note 16. Commitments and contingencies (continued)

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. 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 October 28, 2010, the Bankruptcy Court granted the Company's Motion for Remand and Abstention and remanded the case to the Denver District Court (Colorado state court) where it is now pending. ADC is expected to commence discovery regarding general jurisdiction shortly. Management intends to contest Jurisdiction and denies all material allegations against the Company. Management does not believe that the ultimate resolution of this matter will have a material adverse effect on the Group's financial condition.

During the period from the second half of 2008 until date the financial statements were available to be issued more than 100 claims in relation to a violation of the anti-monopoly regulation were initiated against several Group companies in Russia and abroad. The Group companies were accused of violations primarily involving abuse of their dominant market position and execution of coordinated actions in oil products retail markets.

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

Note 16. Commitments and contingencies (continued)

The Moscow Arbitration Court combined all the Group refinery plants' appeals against the first decision. The decision of the Moscow Arbitration Court dated June 1, 2010 was to refuse the appeals. This decision was confirmed by a decision of the court of appeal dated September 27, 2010. The court's decisions have been appealed to the court of review. The hearing is scheduled for December 13, 2010.

The second decision of FAS of Russia was appealed by the Group refinery plants in their local courts. On October 4, 2010, an agreement was signed between FAS of Russia and OOO LUKOIL-Nizhegorodnefteorgsintez in the First Arbitration Court of Appeal. Based on this agreement appeals on FAS's decisions and orders were withdrawn and simultaneously the assessed penalties were significantly reduced. Other Group refinery plants are assuming to sign similar agreements.

The total amount of administrative penalties which are possible to be claimed to the Group is $224 million (including $94 million which probably will be removed after signing the agreement between FAS of Russia and the Group refinery plants). The Group expects that the most probable penalties to be paid to the budget will be $111 million out of $224 million. Therefore the provision on this amount was accrued in the Group's consolidated financial statements for the nine-months period ended September 30, 2010. These expenses were included in "Other non-operating expense" of the consolidated statements of income.

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. As a result of the purchase of the Company's shares by a Group company from ConocoPhillips in September 2010 (refer to Note 12. Stockholders' equity), ConocoPhillips ceased to be a related party of the Group as at the reporting date.

Below are related party transactions not disclosed elsewhere in the financial statements. Refer also to Notes 4, 6, 9, 10, 11, 12, 15 and 18 for other transactions with related parties.

Sales of oil and oil products to related parties were $1,527 million, $253 million, $2,106 million and $778 million during the three months ended September 30, 2010 and 2009 and during the nine months ended September 30, 2010 and 2009, respectively.

Other sales to related parties were $57 million, $20 million, $93 million and $49 million during the three months ended September 30, 2010 and 2009 and during the nine months ended September 30, 2010 and 2009, respectively.

Note 17. Related party transactions (continued)

Purchases of oil and oil products from related parties were $173 million, $137 million, $461 million and $536 million during the three months ended September 30, 2010 and 2009 and during the nine months ended September 30, 2010 and 2009, respectively.

Purchases of processing services from related parties were $181 million, $142 million, $529 million and $359 million during the three months ended September 30, 2010 and 2009 and during the nine months ended September 30, 2010 and 2009, respectively.

Other purchases from related parties were $13 million, $7 million, $36 million and $18 million during the three months ended September 30, 2010 and 2009 and during the nine months ended September 30, 2010 and 2009, respectively.

Amounts receivable from related parties, including loans and advances, were $520 million and $591 million as of September 30, 2010 and December 31, 2009, respectively. Amounts payable to related parties were $48 million and $97 million as of September 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.

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 September 30, 2010, there was $221 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 an unfavorable market situation the conditions for exercising the second part of this share plan were not met and therefore no payments or share transfers to employees took place by the end of the compensation plan.

Related to these plans the Group recorded $32 million, $32 million, $97 million and $99 million of compensation expenses during the three months ended September 30, 2010 and 2009 and during the nine months ended September 30, 2010 and 2009, respectively, of which $25 million, $25 million, $74 million and $77 million, respectively, are recognized as an increase in additional paid-in capital. As of September 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 September 30, 2010 and 2009 and during the nine months ended September 30, 2010 and 2009, is $6 million, $7 million, $19 million and $20 million, respectively.

(Millions of US dollars, unless otherwise noted)

Note 19. Segment information

Presented below is information about the Group's operating and geographical segments for the three and nine months ended September 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.

Operating segments

For the three months ended September 30, 2010

	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	854	25,067	288	295	13	-	26,517
Inter-segment	8,319	200	50	327	115	(9,011)	-
Total sales	9,173	25,267	338	622	128	(9,011)	26,517
Operating expenses	1,001	921	90	490	85	(395)	2,192
Depreciation, depletion and amortization	727	242	9	46	30	-	1,054
Interest expense	206	244	11	10	87	(396)	162
Income tax expense	309	244	15	(5)	1	-	564
Net income (net loss)	1,895	641	65	(61)	308	(30)	2,818
Total assets	56,304	60,415	1,602	4,249	14,244	(54,975)	81,839
Capital expenditures	1,084	311	16	98	20	-	1,529

For the three months ended September 30, 2009

	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	671	20,701	292	258	19	-	21,941
Inter-segment	6,367	234	55	236	205	(7,097)	-
Total sales	7,038	20,935	347	494	224	(7,097)	21,941
Operating expenses	865	951	81	351	156	(497)	1,907
Depreciation, depletion and amortization	652	254	10	52	30	-	998
Interest expense	224	359	3	9	94	(520)	169
Income tax expense	269	220	3	3	40	(15)	520
Net income (net loss)	1,260	716	26	(83)	41	96	2,056
Total assets	52,083	54,366	1,109	4,041	13,177	(48,425)	76,351
Capital expenditures	1,227	295	28	67	26	-	1,643

(Millions of US dollars, unless otherwise noted)

Note 19. Segment information (continued)

For the nine months ended September 30, 2010

	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	2,287	72,023	895	1,025	42	-	76,272
Inter-segment	24,409	623	176	936	385	(26,529)	-
Total sales	26,696	72,646	1,071	1,961	427	(26,529)	76,272
Operating expenses	2,853	2,362	301	1,398	240	(1,160)	5,994
Depreciation, depletion and amortization	2,126	728	28	139	93	-	3,114
Interest expense	680	885	24	25	306	(1,385)	535
Income tax expense	908	727	27	(11)	-	9	1,660
Net income (net loss)	4,623	2,173	115	(101)	81	(71)	6,820
Total assets	56,304	60,415	1,602	4,249	14,244	(54,975)	81,839
Capital expenditures	3,474	843	59	298	45	-	4,719

For the nine months ended September 30, 2009

	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	1,635	53,663	692	754	58	-	56,802
Inter-segment	15,697	614	92	776	563	(17,742)	-
Total sales	17,332	54,277	784	1,530	621	(17,742)	56,802
Operating expenses	2,486	1,979	282	1,015	380	(1,127)	5,015
Depreciation, depletion and amortization	1,949	762	31	146	113	-	3,001
Interest expense	642	859	9	42	269	(1,318)	503
Income tax expense	950	602	3	4	9	(15)	1,553
Net income (net loss)	4,412	1,340	(34)	(155)	(77)	(201)	5,285
Total assets	52,083	54,366	1,109	4,041	13,177	(48,425)	76,351
Capital expenditures	3,468	902	89	178	46	-	4,683

(Millions of US dollars, unless otherwise noted)

Note 19. Segment information (continued)

Geographical segments

	For the three months ended September 30, 2010	For the three months ended September 30, 2009	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009
Sales of crude oil within Russia	225	429	706	472
Export of crude oil and sales of oil of foreign subsidiaries	6,663	5,332	19,351	14,388
Sales of refined products within Russia	2,971	2,279	7,944	5,679
Export of refined products and sales of refined products of foreign subsidiaries	14,985	12,503	43,399	32,401
Sales of chemicals within Russia	170	162	520	338
Export of chemicals and sales of chemicals of foreign subsidiaries	128	158	398	432
Other sales within Russia	661	525	2,112	1,535
Other export sales and other sales of foreign subsidiaries	714	553	1,842	1,557
Total sales	**26,517**	**21,941**	**76,272**	**56,802**

For the three months ended September 30, 2010

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	90	4,518	21,909	-	26,517
Inter-segment	4,170	6,822	5	(10,997)	-
Total sales	4,260	11,340	21,914	(10,997)	26,517
Operating expenses	566	1,141	715	(230)	2,192
Depletion, depreciation and amortization	262	591	201	-	1,054
Interest expense	9	97	88	(32)	162
Income tax expense	175	342	47	-	564
Net income	750	1,461	597	10	2,818
Total assets	19,146	47,141	29,326	(13,774)	81,839
Capital expenditures	442	774	313	-	1,529

For the three months ended September 30, 2009

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	30	3,963	17,948	-	21,941
Inter-segment	3,069	7,388	4	(10,461)	-
Total sales	3,099	11,351	17,952	(10,461)	21,941
Operating expenses	499	1,292	428	(312)	1,907
Depletion, depreciation and amortization	244	559	195	-	998
Interest expense	11	201	93	(136)	169
Income tax expense	176	260	50	34	520
Net income (net loss)	907	1,110	(44)	83	2,056
Total assets	19,874	43,600	24,792	(11,915)	76,351
Capital expenditures	470	849	324	-	1,643

(Millions of US dollars, unless otherwise noted)

Note 19. Segment information (continued)

For the nine months ended September 30, 2010

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	293	12,599	63,380	-	76,272
Inter-segment	12,360	20,079	18	(32,457)	-
Total sales	12,653	32,678	63,398	(32,457)	76,272
Operating expenses	1,697	3,277	1,701	(681)	5,994
Depletion, depreciation and amortization	771	1,755	588	-	3,114
Interest expense	29	421	327	(242)	535
Income tax expense	436	1,037	178	9	1,660
Net income	1,912	4,085	839	(16)	6,820
Total assets	19,146	47,141	29,326	(13,774)	81,839
Capital expenditures	1,416	2,222	1,081	-	4,719

For the nine months ended September 30, 2009

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	95	9,502	47,205	-	56,802
Inter-segment	8,072	19,043	15	(27,130)	-
Total sales	8,167	28,545	47,220	(27,130)	56,802
Operating expenses	1,402	2,906	1,069	(362)	5,015
Depletion, depreciation and amortization	716	1,711	574	-	3,001
Interest expense	35	469	295	(296)	503
Income tax expense	486	896	171	-	1,553
Net income	2,292	3,136	76	(219)	5,285
Total assets	19,874	43,600	24,792	(11,915)	76,351
Capital expenditures	1,401	2,265	1,017	-	4,683

The Group's international sales to third parties include sales in Switzerland of $12,976 million, $10,325 million, $38,710 million and $26,208 million for the three months ended September 30, 2010 and 2009 and for the nine months ended September 30, 2010 and 2009, respectively. The Group's international sales to third parties include sales in the USA of $1,963 million, $1,949 million, $6,043 million and $5,697 million for the three months ended September 30, 2010 and 2009 and for the nine months ended September 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 November 29, 2010.

In November 2010, a Group company issued two tranches of non-convertible bonds totaling $1.0 billion with a coupon yield of 6.125% and maturity in 2020. The first tranche totaling $800 million was placed at a price of 99.081% of the bond's face value with the resulting yield to maturity of 6.25%. The second tranche totaling $200 million was placed at a price of 102.44% of the bond's face value with the resulting yield to maturity of 5.80%. These tranches have a half year coupon period.