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, 2012

(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, 2012, the related consolidated statements of comprehensive income for the three-month and nine-month periods ended September 30, 2012 and 2011, and the related consolidated statements of stockholders' equity and cash flows for the nine-month periods ended September 30, 2012 and 2011. This interim financial information is the responsibility of the Company'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.

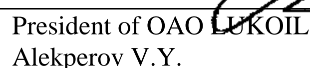
ZAO KPMG

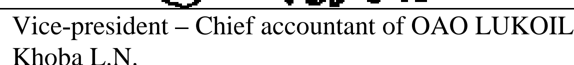
ZAO KPMG
Moscow, Russian Federation
November 21, 2012

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

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

	Note	As of September 30, 2012 (unaudited)	As of December 31, 2011
Assets			
Current assets			
Cash and cash equivalents	4	2,435	2,753
Short-term investments		258	157
Accounts receivable, net	5	9,451	8,921
Inventories		8,715	7,533
Prepaid taxes and other expenses		3,188	3,219
Other current assets		913	946
Total current assets		**24,960**	**23,529**
Investments	6	4,013	5,952
Property, plant and equipment	7, 8	63,912	56,803
Deferred income tax assets		614	591
Goodwill and other intangible assets	9	1,962	1,344
Other non-current assets		1,287	2,973
Total assets		**96,748**	**91,192**
Liabilities and Equity			
Current liabilities			
Accounts payable		6,839	5,995
Short-term borrowings and current portion of long-term debt	10	821	1,792
Taxes payable		2,930	2,271
Other current liabilities		1,227	1,050
Total current liabilities		**11,817**	**11,108**
Long-term debt	11, 14	5,668	7,300
Deferred income tax liabilities		3,716	2,790
Asset retirement obligations	7	2,190	2,120
Other long-term liabilities		481	408
Total liabilities		**23,872**	**23,726**
Equity	13		
OAO LUKOIL stockholders' equity			
Common stock		15	15
Treasury stock, at cost		(5,189)	(4,081)
Equity-linked notes		(2,500)	(980)
Additional paid-in capital		5,030	4,798
Retained earnings		74,532	67,940
Accumulated other comprehensive loss		(44)	(54)
Total OAO LUKOIL stockholders' equity		**71,844**	**67,638**
Noncontrolling interests		1,032	(172)
Total equity		**72,876**	**67,466**
Total liabilities and equity		**96,748**	**91,192**





President of OAO LUKOIL
Alekperov V.Y.

Vice-president – Chief accountant of OAO LUKOIL
Khoba L.N.

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

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

	Note	For the three months ended September 30, 2012 (unaudited)	For the three months ended September 30, 2011 (unaudited)	For the nine months ended September 30, 2012 (unaudited)	For the nine months ended September 30, 2011 (unaudited)
Revenues					
Sales (including excise and export tariffs)	20	35,494	34,563	103,152	99,101
Costs and other deductions					
Operating expenses		(2,349)	(2,280)	(6,891)	(6,858)
Cost of purchased crude oil, gas and products		(16,343)	(15,051)	(47,127)	(43,058)
Transportation expenses		(1,523)	(1,604)	(4,625)	(4,677)
Selling, general and administrative expenses		(904)	(1,043)	(2,665)	(2,845)
Depreciation, depletion and amortization		(1,309)	(1,137)	(3,581)	(3,345)
Taxes other than income taxes		(3,309)	(3,442)	(10,248)	(9,811)
Excise and export tariffs		(5,591)	(6,128)	(17,258)	(16,519)
Exploration expenses		(52)	(196)	(199)	(309)
(Loss) gain on disposals and impairments of assets		(29)	(11)	137	(171)
Income from operating activities		**4,085**	**3,671**	**10,695**	**11,508**
Interest expense		(109)	(182)	(430)	(532)
Interest and dividend income		62	53	194	144
Equity share in income of affiliates	6	64	168	408	510
Currency translation loss		(97)	(154)	(493)	(312)
Other non-operating income (expense)		41	(48)	(26)	287
Income before income taxes		**4,046**	**3,508**	**10,348**	**11,605**
Current income taxes		(613)	(1,091)	(2,205)	(2,071)
Deferred income taxes		37	(27)	89	(500)
Total income tax expense	3	**(576)**	**(1,118)**	**(2,116)**	**(2,571)**
Net income		**3,470**	**2,390**	**8,232**	**9,034**
Net loss (income) attributable to noncontrolling interests		39	(146)	84	(22)
Net income attributable to OAO LUKOIL		**3,509**	**2,244**	**8,316**	**9,012**
Earnings per share of common stock attributable to OAO LUKOIL (US dollars):	13				
Basic		4.65	2.88	10.91	11.55
Diluted		4.55	2.83	10.68	11.31
Other comprehensive income, net of tax:					
Defined benefit pension plan:					
Prior service cost arising during the period		3	4	10	11
Unrealized gains on securities:					
Unrecognized gain on available-for-sale securities		-	(2)	-	(1)
Other comprehensive income		**3**	**2**	**10**	**10**
Comprehensive income		**3,473**	**2,392**	**8,242**	**9,044**
Comprehensive loss (income) attributable to noncontrolling interests		39	(146)	84	(22)
Comprehensive income attributable to OAO LUKOIL		**3,512**	**2,246**	**8,326**	**9,022**

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

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

	Common stock	Treasury stock	Equity-linked notes	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total OAO LUKOIL stockholders' equity	Noncontrol-ling interests	Total equity
Nine months ended September 30, 2012									
Balance as of December 31, 2011	15	(4,081)	(980)	4,798	67,940	(54)	**67,638**	(172)	**67,466**
Net income (loss)	-	-	-	-	8,316	-	**8,316**	(84)	**8,232**
Other comprehensive income	-	-	-	-	-	10	**10**	-	**10**
Comprehensive income (loss)					8,316	10	**8,326**	**(84)**	**8,242**
Dividends on common stock	-	-	-	-	(1,724)	-	**(1,724)**	-	**(1,724)**
Effect of stock compensation plan	-	-	-	74	-	-	**74**	-	**74**
Stock purchased	-	(128)	(2,500)	-	-	-	**(2,628)**	-	**(2,628)**
Equity-linked notes conversion	-	(980)	980	-	-	-	**-**	-	**-**
Changes in noncontrolling interests	-	-	-	158	-	-	**158**	1,288	**1,446**
Balance as of September 30, 2012	**15**	**(5,189)**	**(2,500)**	**5,030**	**74,532**	**(44)**	**71,844**	**1,032**	**72,876**
Nine months ended September 30, 2011									
Balance as of December 31, 2010	15	(3,683)	(980)	4,700	59,212	(67)	**59,197**	411	**59,608**
Net income	-	-	-	-	9,012	-	**9,012**	22	**9,034**
Other comprehensive income	-	-	-	-	-	10	**10**	-	**10**
Comprehensive income					9,012	10	**9,022**	**22**	**9,044**
Dividends on common stock	-	-	-	-	(1,629)	-	**(1,629)**	-	**(1,629)**
Effect of stock compensation plan	-	-	-	74	-	-	**74**	-	**74**
Stock purchased	-	(346)	-	-	-	-	**(346)**	-	**(346)**
Changes in noncontrolling interests	-	-	-	-	-	-	**-**	(49)	**(49)**
Balance as of September 30, 2011	**15**	**(4,029)**	**(980)**	**4,774**	**66,595**	**(57)**	**66,318**	**384**	**66,702**

	Share activity (thousands of shares)	
	Common stock	**Treasury stock**
Nine months ended September 30, 2012		
Balance as of December 31, 2011	850,563	(76,101)
Stock purchased	-	(2,096)
Equity-linked notes conversion	-	(17,500)
Balance as of September 30, 2012	**850,563**	**(95,697)**
Nine months ended September 30, 2011		
Balance as of December 31, 2010	850,563	(69,208)
Purchase of treasury stock	**-**	(5,919)
Balance as of September 30, 2011	**850,563**	**(75,127)**

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, 2012 (unaudited)	For the nine months ended September 30, 2011 (unaudited)
Cash flows from operating activities			
Net income attributable to OAO LUKOIL		**8,316**	**9,012**
Adjustments for non-cash items:			
Depreciation, depletion and amortization		3,581	3,345
Equity share in income of affiliates, net of dividends received		113	160
Dry hole write-offs		90	215
(Gain) loss on disposals and impairments of assets		(137)	171
Deferred income taxes		(89)	500
Non-cash currency translation loss (gain)		188	(83)
Non-cash investing activities		(5)	(8)
All other items – net		88	294
Changes in operating assets and liabilities:			
Trade accounts receivable		(140)	(925)
Inventories		(712)	(907)
Accounts payable		574	716
Taxes payable		590	393
Other current assets and liabilities		373	416
Net cash provided by operating activities		**12,830**	**13,299**
Cash flows from investing activities			
Acquisition of licenses		(8)	(6)
Capital expenditures		(8,061)	(5,581)
Proceeds from sale of property, plant and equipment		392	47
Purchases of investments		(156)	(63)
Proceeds from sale of investments		74	65
Sale of subsidiaries, net of cash disposed		9	48
Acquisitions of subsidiaries and equity method affiliates (including advances related to acquisitions), net of cash acquired		(722)	(2,130)
Net cash used in investing activities		**(8,472)**	**(7,620)**
Cash flows from financing activities			
Net movements of short-term borrowings		(7)	(600)
Proceeds from issuance of long-term debt		-	1
Principal repayments of long-term debt		(1,368)	(794)
Dividends paid on Company common stock		(1,795)	(1,585)
Dividends paid to noncontrolling interest stockholders		(82)	(76)
Financing received from noncontrolling interest stockholders		2	3
Purchase of Company’s stock		(128)	(346)
Purchase of equity-linked notes		(740)	-
Purchase of noncontrolling interest		(606)	(1)
Net cash used in financing activities		**(4,724)**	**(3,398)**
Effect of exchange rate changes on cash and cash equivalents		48	(208)
Net (decrease) increase in cash and cash equivalents		**(318)**	**2,073**
Cash and cash equivalents at beginning of period		2,753	2,368
Cash and cash equivalents at end of period	4	**2,435**	**4,441**

Supplemental disclosures of cash flow information		
Interest paid	308	437
Income taxes paid	1,339	1,707

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

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 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, 2011. 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, 2011 annual consolidated financial statements.

The results for the nine-month period ended September 30, 2012 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.

Revenues

Revenues 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 profit or loss.

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

In all cases, foreign currency transaction gains and losses are included in profit or loss.

As of September 30, 2012 and December 31, 2011, exchange rates of 30.92 and 32.20 Russian rubles to the US dollar, respectively, have been used for translation purposes.

Cash and cash equivalents

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

Cash with restrictions on immediate use

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

Note 2. Summary of significant accounting policies (continued)

Accounts receivable

Accounts 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 collected. 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 first-in, first-out cost method (FIFO). The cost of all other inventory categories is determined using the "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 profit or loss. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are reported as a separate component of other 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 profit or loss 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 profit or loss 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 profit or loss.

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 (including development dry holes and the Group's share of operators' expenses during the development stage of production sharing and risk service contracts), 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.

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 towards 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.

Note 2. Summary of significant accounting policies (continued)

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 assessing qualitative factors and then, if it is necessary, 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.

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.

Note 2. Summary of significant accounting policies (continued)

Income taxes

Deferred income tax assets and liabilities are recognized in respect of the 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 profit or loss 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 profit or loss.

Interest-bearing borrowings

Interest-bearing borrowings from third parties (except convertible notes) 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 profit or loss and the carrying amounts are adjusted as amortization accumulates.

For borrowings from related parties (except convertible notes) issued with an interest rate lower than the market interest rate, the Group determines book value using market interest rate. The resulting difference is allocated to additional paid-in capital and is amortized at a constant rate over the term of the borrowings. Amortization is included in profit or loss each period and the carrying amounts are adjusted as amortization accumulates.

For convertible notes issued with a cash conversion option, the Group allocates the proceeds from issuance between a liability component and an equity component. The Group records the equity component at an amount equal to the difference between the proceeds received and the fair value of the liability component, measured as the fair value of a similar liability that does not have an associated equity component. The Group recognizes the interest cost in subsequent periods at its borrowing rate for non-convertible debt.

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

Pension benefits

The expected costs in respect of pension obligations of Group companies are determined by management based on the amount of pension obligations for the previous financial year calculated by an independent actuary. Obligations in respect of each employee are accrued over the periods during which the employee renders service to the Group.

Note 2. Summary of significant accounting policies (continued)

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 profit or loss. If the assessment indicates that a potentially material loss is not probable, but is reasonably possible, or is probable, but cannot be reasonably 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 operations 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 profit or loss on a net basis. Unrealized gains and losses are carried as assets or liabilities on the consolidated balance sheet.

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.

Note 2. Summary of significant accounting policies (continued)

Changes in accounting policy

In September 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-08, *"Testing Goodwill for Impairment,"* which allows an entity to use a qualitative approach to test goodwill for impairment. This ASU permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount and hence whether it is necessary to perform the two-step goodwill impairment test as required by the provisions of Topic 350 of the Codification. ASU No. 2011-08 is effective for annual and interim goodwill impairment tests performed for the fiscal years beginning after December 15, 2011. The Group adopted the requirements of ASU No. 2011-08 starting from the first quarter of 2012. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows and did not require additional disclosures.

In June 2011, the FASB issued ASU No. 2011-05, *"Presentation of comprehensive income,"* which amends Topic 220 of the Codification. This ASU increases the prominence of other comprehensive income in financial statements. Under this ASU, an entity has the option to present the components of net income and comprehensive income in either one or two statements. The ASU eliminates the option in US GAAP to present other comprehensive income in the statement of changes in equity. ASU No. 2011-05 is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011 (except those reclassification adjustments deferred by ASU No. 2011-12) and should be applied retrospectively. The Group adopted the requirements of ASU No. 2011-05 starting from the first quarter of 2012. This adoption changed the presentation of net and comprehensive incomes and stockholders' equity, but did not have any impact on the Group's results of operations, financial position or cash flows.

In May 2011, the FASB issued ASU No. 2011-04, *"Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRSs,"* which amends Topic 820 of the Codification. This ASU provides guidance for fair value measurements and disclosure requirements and clarifies the Board's intent about the application of existing fair value measurement requirements. The new standard does not extend the use of fair value but, rather, provides guidance about how fair value should be applied where it already is required or permitted under US GAAP. ASU No. 2011-04 is effective for public entities during interim and annual periods beginning after December 15, 2011 and should be applied prospectively. The Group adopted the requirements of ASU No. 2011-04 starting from the first quarter of 2012. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

In April 2011, the FASB issued ASU No. 2011-02, *"A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring,"* which amends Topic 310 of the Codification. This ASU provides additional guidance in considering whether a restructuring constitutes a troubled debt restructuring and helps creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties. ASU No. 2011-02 is effective starting from the first interim or annual period beginning on or after June 15, 2011. The Group adopted the requirements of ASU No. 2011-02 starting from the third quarter of 2011. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows and did not require additional disclosures.

Recent accounting pronouncements

In December 2011, the FASB issued ASU No. 2011-11, *"Disclosures about Offsetting Assets and Liabilities."* This ASU requires entities to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The scope includes derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. ASU No. 2011-11 is effective for annual reporting periods on or after January 1, 2013, and interim periods within those annual periods, and should be applied retrospectively. The Group is evaluating the effect of the adoption of ASU No. 2011-11 and does not expect any material impact on its 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, the incurrence of costs that are either not tax deductible or only deductible to a certain limit and taxable or deductible income or loss on foreign currency translation differences of Russian Group companies.

The Company and its Russian subsidiaries file income tax returns in Russia. Until January 1, 2012, there were no provisions in the tax legislation of the Russian Federation to permit the Group to reduce taxable profits of a Group company by offsetting tax losses of another Group company against such profits. Tax losses may be fully or partially used to offset taxable profits in the same company in any of the ten years following the year of loss.

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

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

Note 4. Cash and cash equivalents

	As of September 30, 2012	**As of December 31, 2011**
Cash held in Russian rubles	490	926
Cash held in US dollars	1,279	1,224
Cash held in other currencies	319	271
Cash held in related party banks in Russian rubles	308	309
Cash held in related party banks in other currencies	39	23
Total cash and cash equivalents	**2,435**	**2,753**

Note 5. Accounts receivable, net

	As of September 30, 2012	**As of December 31, 2011**
Trade accounts receivable (net of provisions of $222 million and $179 million as of September 30, 2012 and December 31, 2011, respectively)	7,365	7,209
Current VAT and excise recoverable	1,705	1,333
Other current accounts receivable (net of provisions of $60 million and $54 million as of September 30, 2012 and December 31, 2011, respectively)	381	379
Total accounts receivable, net	**9,451**	**8,921**

Note 6. Investments

	As of September 30, 2012	**As of December 31, 2011**
Investments in equity method affiliates and joint ventures	2,781	4,887
Long-term loans to equity method affiliates and joint ventures	1,188	1,001
Other long-term investments	44	64
Total long-term investments	**4,013**	**5,952**

Note 6. Investments (continued)

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, 2012		**For the three months ended September 30, 2011**	
	Total	Group's share	Total	Group's share
Revenues	6,563	1,001	8,088	1,253
Income before income taxes	3,605	267	3,406	248
Less income taxes	(1,961)	(203)	(1,053)	(80)
Net income	**1,644**	**64**	**2,353**	**168**

	For the nine months ended September 30, 2012		**For the nine months ended September 30, 2011**	
	Total	Group's share	Total	Group's share
Revenues	22,339	3,380	24,508	3,624
Income before income taxes	10,145	743	10,312	757
Less income taxes	(3,968)	(335)	(3,159)	(247)
Net income	**6,177**	**408**	**7,153**	**510**

	As of September 30, 2012		**As of December 31, 2011**	
	Total	Group's share	Total	Group's share
Current assets	6,003	913	7,379	1,406
Property, plant and equipment	18,331	3,992	19,064	5,587
Other non-current assets	400	139	1,454	462
Total assets	24,734	5,044	27,897	7,455
Short-term debt	1,334	295	1,100	223
Other current liabilities	3,081	466	3,703	668
Long-term debt	7,690	1,214	7,461	1,069
Other non-current liabilities	1,147	288	1,581	608
Net assets	**11,482**	**2,781**	**14,052**	**4,887**

In April 2011, the Company and OAO ANK Bashneft signed an agreement to establish a joint venture and to develop two oil fields named after R.Trebs and A.Titov, located in the Nenets Autonomous District of Russia. According to the agreement, the mineral rights for the development of the fields were re-issued by OAO ANK Bashneft in favor of its 100% subsidiary OOO Bashneft-Polus. In December 2011, the Company acquired 25.1% of OOO Bashneft-Polus for $153 million, and OOO Bashneft-Polus acquired 29 exploration wells located on these fields from a Group company for $60 million. The parties agreed to transport oil extracted from the fields via the Group's transportation infrastructure and to consider the exploitation of certain other nearby infrastructure owned by the Group. In May 2012, state authorities cancelled the order to transfer the mineral rights for the development of the fields named after R.Trebs and A.Titov to the joint venture and the license was returned to OAO ANK Bashneft. Management does not believe that this matter will have a material adverse effect on the Group's financial condition. The Company and OAO ANK Bashneft are continuing their cooperation within the project and carry out reasonable actions for re-issuance mineral rights by state authorities in favor of OOO Bashneft-Polus.

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

	At cost		**Net**	
	As of September 30, 2012	**As of December 31, 2011**	**As of September 30, 2012**	**As of December 31, 2011**
Exploration and Production:				
Russia	58,576	54,269	36,992	34,415
International	9,138	8,138	7,099	6,376
Total	67,714	62,407	44,091	40,791
Refining, Marketing, Distribution and Chemicals:				
Russia	13,102	12,133	7,799	7,395
International	10,298	6,903	7,446	4,282
Total	23,400	19,036	15,245	11,677
Power generation and other:				
Russia	5,348	4,890	4,288	4,026
International	422	406	288	309
Total	5,770	5,296	4,576	4,335
Total property, plant and equipment	**96,884**	**86,739**	**63,912**	**56,803**

As of September 30, 2012 and December 31, 2011, the asset retirement obligation amounted to $2,195 million and $2,126 million, respectively, of which $5 million and $6 million was included in “Other current liabilities” in the consolidated balance sheets as of September 30, 2012 and December 31, 2011, respectively. During the nine-month periods ended September 30, 2012 and 2011, asset retirement obligations changed as follows:

	For the nine months ended September 30, 2012	**For the nine months ended September 30, 2011**
Asset retirement obligations as of January 1	2,126	1,798
Accretion expense	129	116
New obligations	81	38
Changes in estimates of existing obligations	(136)	(66)
Spending on existing obligations	(2)	(4)
Property dispositions	(8)	(10)
Foreign currency translation and other adjustments	5	(102)
Asset retirement obligations as of September 30	**2,195**	**1,770**

The asset retirement obligations incurred during the nine-month periods ended September 30, 2012 and 2011 were Level 3 (unobservable inputs) fair value measurements. The Group uses a present value technique to evaluate its asset retirement obligations based on estimated future liquidation costs derived from prior transactions or third-party pricing information, and using market discount rates adjusted for risks.

Note 8. Suspended wells

During the nine-month period ended September 30, 2012, total suspended exploratory well costs capitalized changed insignificantly ($511 million and $542 million as of September 30, 2012 and December 31, 2011, respectively). Suspended exploratory well costs capitalized for a period greater than one year amounted to $440 million and $464 million as of September 30, 2012 and December 31, 2011, respectively. No wells were charged to expenses during the nine-month period ended September 30, 2012.

Note 9. Goodwill and other intangible assets

The carrying value of goodwill and other intangible assets as of September 30, 2012 and December 31, 2011 was as follows:

	As of September 30, 2012	As of December 31, 2011
Amortized intangible assets		
Software	422	389
Licenses and other assets	270	343
Goodwill	1,270	612
Total goodwill and other intangible assets	**1,962**	**1,344**

All goodwill amounts relate to the refining, marketing and distribution segment. In the third quarter of 2012, the Group obtained control over the joint venture which operates the ISAB refinery (Priolo, Italy) and recognized goodwill in the amount of $658 million (refer to Note 15. Business combinations). During the nine-month period ended September 30, 2012, there were no other changes in goodwill.

Note 10. Short-term borrowings and current portion of long-term debt

	As of September 30, 2012	As of December 31, 2011
Short-term borrowings from third parties	137	118
Short-term borrowings from related parties	13	30
Current portion of long-term debt	671	1,644
Total short-term borrowings and current portion of long-term debt	**821**	**1,792**

Short-term borrowings from third parties are unsecured and include amounts repayable in US dollars of $55 million and $56 million, amounts repayable in Euro of $36 million and $17 million and amounts repayable in other currencies of $46 million and $45 million as of September 30, 2012 and December 31, 2011, respectively. The weighted-average interest rate on short-term borrowings from third parties was 4.43% and 4.93% per annum as of September 30, 2012 and December 31, 2011, respectively.

Note 11. Long-term debt

	As of September 30, 2012	As of December 31, 2011
Long-term loans and borrowings from third parties	805	2,652
6.375% non-convertible US dollar bonds, maturing 2014	898	897
2.625% convertible US dollar bonds, maturing 2015	1,430	1,412
6.356% non-convertible US dollar bonds, maturing 2017	500	500
7.250% non-convertible US dollar bonds, maturing 2019	596	596
6.125% non-convertible US dollar bonds, maturing 2020	998	998
6.656% non-convertible US dollar bonds, maturing 2022	500	500
13.35% Russian ruble bonds, maturing 2012	-	776
9.20% Russian ruble bonds, maturing 2012	323	311
7.40% Russian ruble bonds, maturing 2013	194	186
Capital lease obligations	95	116
Total long-term debt	6,339	8,944
Current portion of long-term debt	(671)	(1,644)
Total non-current portion of long-term debt	**5,668**	**7,300**

Note 11. Long-term debt (continued)

Long-term loans and borrowings

Long-term loans and borrowings from third parties include amounts repayable in US dollars of $541 million and $834 million, amounts repayable in Euro of $244 million and $284 million, amounts repayable in Russian rubles of $1 million and $1,514 million, and amounts repayable in other currencies of $19 million and $20 million as of September 30, 2012 and December 31, 2011, respectively. This debt has maturity dates from 2012 through 2023. The weighted-average interest rate on long-term loans and borrowings from third parties was 1.83% and 5.39% per annum as of September 30, 2012 and December 31, 2011, respectively. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. Approximately 31% of total long-term loans and borrowings from third parties is secured by export sales and property, plant and equipment.

US dollar convertible bonds

In December 2010, a Group company issued unsecured convertible bonds totaling $1.5 billion with a coupon yield of 2.625% and maturity in June 2015. The bonds were placed at face value. The bonds are convertible into LUKOIL ADRs (each representing one ordinary share of the Company) and currently have a conversion price of $72.6489 per ADR. Bondholders have the right to convert the bonds into LUKOIL ADRs during the period starting from 40 days after the issue date and ending 6 dealing days before the maturity date. The issuer has the right to redeem the bonds after December 31, 2013.

US dollar non-convertible bonds

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 a resulting yield to maturity of 6.250%. The second tranche totaling $200 million was placed at a price of 102.44% of the bond's face value with a resulting yield to maturity of 5.80%. These tranches have a half year coupon period.

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 with a resulting yield to maturity of 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 with a resulting yield to maturity of 7.375%. These tranches have a half year coupon period.

In June 2007, a Group company issued non-convertible bonds totaling $1.0 billion. $500 million were placed with a maturity of 10 years and a coupon yield of 6.356% per annum. Another $500 million were placed with a maturity of 15 years and a coupon yield of 6.656% per annum. All bonds were placed at face value and have a half year coupon period.

Russian ruble bonds

In December 2009, the Company issued 10 million stock exchange bonds with a face value of 1,000 Russian rubles each. The 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.

Note 11. Long-term debt (continued)

In August 2009, the Company issued 25 million stock exchange bonds with a face value of 1,000 Russian rubles each. The bonds were placed at face value with a maturity of 1,092 days. The bonds had a 182 days' coupon period and bore interest at 13.35% per annum. In August 2012, the Company redeemed all issued bonds in accordance with the conditions of the bond issue.

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. In December 2011, the Company redeemed all issued bonds with a maturity of five years in accordance with the conditions of the bond issue.

Note 12. Pension benefits

The Group sponsors a postretirement defined benefit pension program that covers the majority of the Group's employees. One type of pension plan is based on years of service, final remuneration levels as of the end of 2003 and employee gratitude, received during the period of work. The other type of pension plan is based on the salary. These plans are solely financed by Group companies. Simultaneously employees have the right to receive pension benefits with a share-based payment by the Group (up to 4% of the annual salary of the employee). Plan assets and pensions payoffs are managed by a non-state pension fund, LUKOIL-GARANT.

The Group also provides several long-term social benefits, including lump-sum death-in-service benefit, in case of disability and upon retirement payments. Also certain payments are received by retired employees upon reaching a certain old age and invalidity.

Components of net periodic benefit cost were as follows:

	For the three months ended September 30, 2012	For the three months ended September 30, 2011	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
Service cost	4	3	11	11
Interest cost	4	6	14	18
Less expected return on plan assets	(2)	(2)	(7)	(8)
Amortization of prior service cost	3	4	10	11
Total net periodic benefit cost	**9**	**11**	**28**	**32**

Note 13. Stockholders' equity

Common stock

	As of September 30, 2012 (thousands of shares)	As of December 31, 2011 (thousands of shares)
Authorized and issued common stock, par value of 0.025 Russian rubles each	850,563	850,563
Treasury stock	(95,697)	(76,101)
Outstanding common stock	**754,866**	**774,462**

Note 13. Stockholders' equity (continued)

Earnings per share

The calculation of basic and diluted earnings per share for the reporting periods was as follows:

	For the three months ended September 30, 2012	**For the three months ended September 30, 2011**	**For the nine months ended September 30, 2012**	**For the nine months ended September 30, 2011**
Net income	3,509	2,244	8,316	9,012
Add back interest and accretion on 2.625% convertible US dollar bonds, maturing 2015 (net of tax at effective rate)	16	16	47	47
Total diluted net income	3,525	2,260	8,363	9,059
Weighted average number of outstanding common shares (thousands of shares)	754,866	778,256	762,510	780,268
Add back treasury shares held in respect of convertible debt (thousands of shares)	20,513	20,393	20,463	20,365
Weighted average number of outstanding common shares, assuming dilution (thousands of shares)	775,379	798,649	782,973	800,633
Earnings per share of common stock attributable to OAO LUKOIL (US dollars):				
Basic	4.65	2.88	10.91	11.55
Diluted	4.55	2.83	10.68	11.31

Equity-linked notes

In June 2012, a Group company entered into a prepaid forward purchase agreement for OAO LUKOIL shares for $2.5 billion. The Group's right to receive the shares is evidenced by equity-linked notes of $2.5 billion. These notes are redeemable for LUKOIL ADRs (each representing one ordinary share of OAO LUKOIL) on or before September 15, 2015 at the option of the Group at a prevailing market price. These equity-linked notes have been classified within OAO LUKOIL stockholders' equity.

In April 2012, a Group company converted equity-linked notes of $980 million into 17.5 million LUKOIL ADR's (each representing one ordinary share of OAO LUKOIL).

Dividends

At the annual stockholders' meeting on June 27, 2012, dividends were declared for 2011 in the amount of 75.00 Russian rubles per common share, which at the date of the meeting was equivalent to $2.26. Dividends payable of $10 million are included in "Other current liabilities" in the consolidated balance sheets as of September 30, 2012 and December 31, 2011.

At the annual stockholders' meeting on June 23, 2011, dividends were declared for 2010 in the amount of 59.00 Russian rubles per common share, which at the date of the meeting was equivalent to $2.11.

Note 14. Financial and derivative instruments

Fair value

The fair values of cash and cash equivalents (Level 1), current and long-term accounts receivable (Level 3) are approximately equal to their value as disclosed in the consolidated financial statements. The fair value of long-term receivables was determined by discounting with estimated market interest rates for similar financing arrangements.

Note 14. Financial and derivative instruments (continued)

The fair value of long-term debt (Level 3) differs from the amount disclosed in the consolidated financial statements. The estimated fair value of long-term debt as of September 30, 2012 and December 31, 2011 was $6,924 million and $8,666 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, 2012, 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 hedge accounting, defined by Topic 815, *"Derivative and hedging,"* of the Codification, all gains and losses, realized or unrealized, from derivative contracts have been recognized in profit or loss.

Topic 815 of the Codification 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 a 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, 2012				As of December 31, 2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Commodity derivatives	-	1,040	-	**1,040**	-	575	-	**575**
Total assets	-	**1,040**	-	**1,040**	-	**575**	-	**575**
Liabilities								
Commodity derivatives	-	(1,193)	-	**(1,193)**	-	(599)	-	**(599)**
Total liabilities	-	**(1,193)**	-	**(1,193)**	-	**(599)**	-	**(599)**
Net liabilities	-	**(153)**	-	**(153)**	-	**(24)**	-	**(24)**

The derivative values above are based on an analysis of each contract as the fundamental unit of account as required by Topic 820, *"Fair Value Measurements and Disclosures,"* of the Codification. Therefore, derivative assets and liabilities with the same counterparty are not reflected net where the legal right of offset exists. Gains or losses from contracts in one level may be offset by gains or losses on contracts in another level or by changes in values of physical contracts or positions that are not reflected in the table above.

Note 14. Financial and derivative instruments (continued)

Commodity derivatives are valued using quotations provided by brokers and price index developers. These quotes are corroborated with market data and are classified as Level 2. Commodity derivatives are valued using industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and contractual prices for the underlying instruments, as well as other relevant economic measures.

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 an 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, 2012 was:

	As of September 30, 2012
Assets	
Accounts receivable	1,040
Liabilities	
Accounts payable	(1,193)

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

As required under Topic 815 of the Codification 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 $38 million and accounts payable in the amount of $191 million.

Financial results from commodity derivatives were included in the consolidated statements of comprehensive income in "Cost of purchased crude oil, gas and products" and for the three and nine months ended September 30, 2012 were in the total amount of net loss of $534 million (of which realized loss was $224 million and unrealized loss was $310 million) and net loss of $452 million (of which realized loss was $323 million and unrealized loss was $129 million), respectively.

As of September 30, 2012, 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 as of September 30, 2012 was not significant.

The impact from foreign currency derivatives during the three and nine months ended September 30, 2012 on the consolidated statement of comprehensive income was not significant. The net position of outstanding foreign currency swap contracts as of September 30, 2012 also was not significant.

Note 14. Financial and derivative instruments (continued)

Credit risk

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

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

Certain of the Group's derivative instruments contain provisions that require the Group to post collateral if the derivative exposure exceeds a threshold amount. The Group has contracts with fixed threshold amounts and other contracts with variable threshold amounts that are contingent on the Group's credit rating. The variable threshold amounts typically decline for lower credit ratings, while both the variable and fixed threshold amounts typically revert to zero if the Group's credit rating 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 as of September 30, 2012. The Group posted $29 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) as of September 30, 2012, and it would be below investment grade, the Group would be required to post additional collateral of $5 million to the Group's counterparties for the over-the-counter derivatives, either with cash or letters of credit. The maximum additional collateral based on the lowest downgrade would be $14 million in total.

Note 15. Business combinations

In January 2012, the Group received a notice that the Board of Directors of ERG S.p.A. ("ERG") decided to exercise its option to sell to the Group a further 20% interest in the joint venture which operates the ISAB refining complex (Priolo, Italy). The notice was received in accordance with the initial agreement on the establishment of the joint venture signed in 2008. This agreement gave the second investor – ERG a step-by-step put option to sell its share in the joint venture to the Group. Approval of regulatory authorities has been received. The transaction was finalized in September 2012 in the amount of €485 million (approximately $609 million). Accordingly, the Group's stake in the joint venture increased from 60% to 80% and in accordance with the initial agreement on the establishment of the joint venture the Group obtained control and consolidated this joint venture. The Group preliminarily allocated $658 million to goodwill, $3,023 million to property, plant and equipment, $800 million to deferred tax liability, $1,024 million to current assets and $444 million to current liabilities.

Note 16. Consolidation of Variable Interest Entity

The Group and ConocoPhillips had a joint venture, OOO Narianmarneftegaz ("NMNG"), which develops oil reserves in the Timan-Pechora region of the Russian Federation. The Group and ConocoPhillips had equal voting rights over the joint venture's activity and effective ownership interests of 70% and 30%, respectively. In August 2012, the Group acquired ConocoPhillips' investment in NMNG and certain assets related to NMNG for $604 million. The acquisition brings the Group's total ownership interest in NMNG to 100%.

Up until the date of acquisition of the 30% interest, the Group consolidated NMNG due to the fact that NMNG was a variable interest entity and the Group was considered to be the primary beneficiary.

Note 17. 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 also has a commitment to execute the investment program in its power generation companies.

During the three-month period ended September 30, 2012, there were no significant changes in the commitments from those disclosed in the Group's consolidated financial statements for the period ended June 30, 2012.

Operating lease obligations

Group companies have commitments of $463 million primarily for the lease of vessels and petroleum distribution outlets. Operating lease expenses were $57 million, $44 million, $158 million and $126 million for the three months ended September 30, 2012 and 2011 and for the nine months ended September 30, 2012 and 2011, respectively. Commitments for minimum rentals under these leases as of September 30, 2012 are as follows:

	As of September 30, 2012
For the three-months ending December 31, 2012	40
2013 fiscal year	113
2014 fiscal year	92
2015 fiscal year	66
2016 fiscal year	48
beyond	104

Insurance

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

Environmental liabilities

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

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

Note 17. Commitments and contingencies (continued)

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 (only to the extent that they are expected to result in future economic benefits to the Group) 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, who 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 substantially more significant taxation risks in the Russian Federation and other emerging markets where Group companies operate, than those in other countries where taxation regimes have been subject to development and clarification over long periods.

The tax authorities in each region may have a different interpretation of similar taxation issues which may result in taxation issues successfully defended by the Group in one region being unsuccessful in another region. There is some direction provided from the central authority based in Moscow on particular taxation issues. The Group has implemented tax planning and management strategies based on existing legislation at the time of implementation. The Group is subject to tax authority audits on an ongoing basis, as is normal in the Russian environment and other republics of the former Soviet Union, and, at times, the authorities have attempted to impose additional significant taxes on the Group. Management believes that it has adequately met and provided for tax liabilities based on its interpretation of existing tax legislation. However, the relevant tax authorities may have differing interpretations and the effects on the financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Litigation and claims

On November 27, 2001, Archangel Diamond Corporation (“ADC”), a Canadian diamond development company, filed a lawsuit in the Denver District Court, Colorado against OAO Arkhangelskgeoldobycha (“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 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 Colorado 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 and remanded the case to the Colorado Court of Appeals to consider whether the lawsuit should have been dismissed on alternative grounds (i.e., forum non conveniens). The Colorado Court of Appeals declined to dismiss the case based on forum non conveniens and the case was remanded to the District Court. In June 2009, three creditors of ADC filed an Involuntary Bankruptcy Petition putting ADC into bankruptcy. In November 2009, after adding a claim, ADC removed the case from the District Court to the US Bankruptcy 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. On October 20, 2011, the Denver District Court dismissed all claims against the Company for lack of jurisdiction. ADC filed notice of appeal on April 17, 2012.

Note 17. Commitments and contingencies (continued)

On August 23, 2012, the Court of Appeals affirmed the Denver District Court's dismissal for lack of jurisdiction. ADC filed a Petition for Rehearing which was denied on September 20, 2012. ADC then filed a petition for Writ of Certiorari in the Colorado Supreme Court on October 18, 2012. The Company filed its Response to the Writ on November 1, 2012. The Colorado Supreme Court has not indicated yet if it will consider this case. Management does not believe that the ultimate resolution of this matter will have a material adverse effect on the Group's financial condition.

On January 6, 2012, ADC filed a lawsuit in the US District Court for the District of Colorado (federal court) reasserting almost identical claims asserted in the aforementioned lawsuit and dismissed by the Denver District Court (state court) notwithstanding ADC's appeal of the state court's decision. In Federal Court case, the Company has filed a Motion to Dismiss and discovery has been stayed pending further action. The Company plans to seek dismissal of the case and vigorously defend the matter. Management does not believe that the ultimate resolution of this matter will have a material adverse effect on the Group's 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 18. 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. Related party processing services were provided by affiliated refineries.

Below are related party transactions not disclosed elsewhere in the financial statements. Refer also to Notes 4, 6, 10, 12 and 19 for other transactions with related parties.

Sales of oil and oil products to related parties were $304 million, $328 million, $914 million and $1,014 million during the three months ended September 30, 2012 and 2011 and during the nine months ended September 30, 2012 and 2011, respectively.

Other sales to related parties were $11 million, $13 million, $38 million and $40 million during the three months ended September 30, 2012 and 2011 and during the nine months ended September 30, 2012 and 2011, respectively.

Purchases of oil and oil products from related parties were $113 million, $61 million, $361 million and $266 million during the three months ended September 30, 2012 and 2011 and during the nine months ended September 30, 2012 and 2011, respectively.

Purchases of processing services from related parties were $161 million, $214 million, $639 million and $648 million during the three months ended September 30, 2012 and 2011 and during the nine months ended September 30, 2012 and 2011, respectively.

Other purchases from related parties were $26 million, $16 million, $59 million and $44 million during the three months ended September 30, 2012 and 2011 and during the nine months ended September 30, 2012 and 2011, respectively.

Amounts receivable from related parties, including short-term loans and advances, were $313 million and $339 million as of September 30, 2012 and December 31, 2011, respectively. Amounts payable to related parties were $67 million and $115 million as of September 30, 2012 and December 31, 2011, respectively.

Note 19. Compensation plan

Since December 2009, the Company has a 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 was 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 of 3.09% per annum, an 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, 2012, there was $25 million of total unrecognized compensation cost related to unvested benefits. This cost is expected to be recognized in the three-month period ending December 31, 2012.

Related to these plans the Group recorded $35 million, $34 million, $114 million and $105 million of compensation expenses during the three months ended September 30, 2012 and 2011 and during the nine months ended September 30, 2012 and 2011, respectively, of which $25 million during the three months ended September 30, 2012 and 2011 and $74 million during the nine months ended September 30, 2012 and 2011 are recognized as an increase in additional paid-in capital, respectively. As of September 30, 2012 and December 31, 2011, $32 million and $28 million related to these plans are included in "Other current liabilities" in the consolidated balance sheets, respectively. The total recognized tax benefit related to these accruals during the three months ended September 30, 2012 and 2011 and during the nine months ended September 30, 2012 and 2011, is $7 million, $7 million, $23 million and $21 million, respectively.

Note 20. Segment information

Presented below is information about the Group's operating and geographical segments for the three and nine months ended September 30, 2012 and 2011, in accordance with Topic 280, *"Segment reporting,"* of the Codification.

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 are based on the area of operations and include two segments: Russia and International.

Note 20. Segment information (continued)

Operating segments

For the three months ended September 30, 2012

	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	690	34,182	294	299	29	-	35,494
Inter-segment	11,635	354	61	393	772	(13,215)	-
Total sales	12,325	34,536	355	692	801	(13,215)	35,494
Operating expenses	1,346	885	116	469	570	(1,037)	2,349
Depreciation, depletion and amortization	889	354	13	62	30	(39)	1,309
Interest expense	199	144	13	20	141	(408)	109
Income tax expense	475	153	14	2	6	(74)	576
Net income (loss)	2,082	1,989	(67)	(124)	(42)	(329)	3,509
Total assets	64,637	71,595	1,452	4,371	20,384	(65,691)	96,748
Capital expenditures	2,024	506	29	88	80	-	2,727

For the three months ended September 30, 2011

	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	940	32,862	502	230	29	-	34,563
Inter-segment	10,231	518	117	357	695	(11,918)	-
Total sales	11,171	33,380	619	587	724	(11,918)	34,563
Operating expenses	1,108	1,115	130	438	594	(1,105)	2,280
Depreciation, depletion and amortization	732	310	17	46	32	-	1,137
Interest expense	192	158	6	11	126	(311)	182
Income tax expense	429	661	14	2	-	12	1,118
Net income (loss)	2,251	448	(63)	(17)	(237)	(138)	2,244
Total assets	59,023	60,297	1,474	4,121	20,120	(53,742)	91,293
Capital expenditures	1,565	354	21	39	55	-	2,034

Note 20. Segment information (continued)

For the nine months ended September 30, 2012

	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	2,426	98,700	939	994	93	-	103,152
Inter-segment	33,446	1,180	240	1,144	2,058	(38,068)	-
Total sales	35,872	99,880	1,179	2,138	2,151	(38,068)	103,152
Operating expenses	3,873	2,595	332	1,379	1,585	(2,873)	6,891
Depreciation, depletion and amortization	2,307	998	48	186	91	(49)	3,581
Interest expense	621	537	32	48	416	(1,224)	430
Income tax expense	1,506	508	45	29	47	(19)	2,116
Net income (loss)	6,486	2,797	(248)	(230)	(335)	(154)	8,316
Total assets	64,637	71,595	1,452	4,371	20,384	(65,691)	96,748
Capital expenditures	6,339	1,247	63	312	179	-	8,140

For the nine months ended September 30, 2011

	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	2,725	93,610	1,540	1,146	80	-	99,101
Inter-segment	30,589	1,411	423	1,155	1,820	(35,398)	-
Total sales	33,314	95,021	1,963	2,301	1,900	(35,398)	99,101
Operating expenses	3,220	3,103	319	1,590	1,505	(2,879)	6,858
Depreciation, depletion and amortization	2,104	919	47	171	99	5	3,345
Interest expense	560	528	14	35	374	(979)	532
Income tax expense	1,478	1,004	39	(2)	7	45	2,571
Net income (loss)	6,140	3,098	20	(100)	(158)	12	9,012
Total assets	59,023	60,297	1,474	4,121	20,120	(53,742)	91,293
Capital expenditures	4,489	852	49	117	141	-	5,648

Geographical segments

	For the three months ended September 30, 2012	For the three months ended September 30, 2011	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
Sales of crude oil within Russia	446	366	1,093	1,209
Export of crude oil and sales of crude oil of foreign subsidiaries	6,660	8,710	20,191	23,712
Sales of refined products within Russia	4,552	4,357	12,130	11,224
Export of refined products and sales of refined products of foreign subsidiaries	21,942	19,215	63,930	56,915
Sales of chemicals within Russia	73	241	191	744
Export of chemicals and sales of chemicals of foreign subsidiaries	232	277	776	849
Other sales within Russia	768	680	2,363	2,427
Other export sales and other sales of foreign subsidiaries	821	717	2,478	2,021
Total sales	**35,494**	**34,563**	**103,152**	**99,101**

Note 20. Segment information (continued)

For the three months ended September 30, 2012

	Russia	International	Elimination	Consolidated
Sales				
Third parties	6,581	28,913	-	35,494
Inter-segment	9,814	76	(9,890)	-
Total sales	16,395	28,989	(9,890)	35,494
Operating expenses	1,844	527	(22)	2,349
Depletion, depreciation and amortization	1,067	242	-	1,309
Interest expense	27	126	(44)	109
Income tax expense	573	90	(87)	576
Net income	3,384	442	(317)	3,509
Total assets	77,620	39,289	(20,161)	96,748
Capital expenditures	2,180	547	-	2,727

For the three months ended September 30, 2011

	Russia	International	Elimination	Consolidated
Sales				
Third parties	6,730	27,833	-	34,563
Inter-segment	9,773	48	(9,821)	-
Total sales	16,503	27,881	(9,821)	34,563
Operating expenses	1,715	552	13	2,280
Depletion, depreciation and amortization	939	198	-	1,137
Interest expense	96	117	(31)	182
Income tax expense	982	123	13	1,118
Net income	2,353	18	(127)	2,244
Total assets	71,500	34,030	(14,237)	91,293
Capital expenditures	1,535	499	-	2,034

For the nine months ended September 30, 2012

	Russia	International	Elimination	Consolidated
Sales				
Third parties	18,502	84,650	-	103,152
Inter-segment	30,131	125	(30,256)	-
Total sales	48,633	84,775	(30,256)	103,152
Operating expenses	5,330	1,605	(44)	6,891
Depletion, depreciation and amortization	2,924	657	-	3,581
Interest expense	177	378	(125)	430
Income tax expense	1,707	458	(49)	2,116
Net income	7,569	872	(125)	8,316
Total assets	77,620	39,289	(20,161)	96,748
Capital expenditures	6,478	1,662	-	8,140

Note 20. Segment information (continued)

For the nine months ended September 30, 2011

	Russia	International	Elimination	Consolidated
Sales				
Third parties	18,549	80,552	-	99,101
Inter-segment	29,987	75	(30,062)	-
Total sales	48,536	80,627	(30,062)	99,101
Operating expenses	5,311	1,569	(22)	6,858
Depletion, depreciation and amortization	2,760	585	-	3,345
Interest expense	266	352	(86)	532
Income tax expense	2,141	405	25	2,571
Net income	8,417	562	33	9,012
Total assets	71,500	34,030	(14,237)	91,293
Capital expenditures	4,493	1,155	-	5,648

The Group's international sales to third parties include sales in Switzerland of $16,774 million, $16,946 million, $50,260 million and $48,975 million for the three months ended September 30, 2012 and 2011 and for the nine months ended September 30, 2012 and 2011, respectively. The Group's international sales to third parties include sales in the USA of $3,372 million, $2,424 million, $9,120 million and $7,104 million for the three months ended September 30, 2012 and 2011 and for the nine months ended September 30, 2012 and 2011, respectively. These amounts are attributed to individual countries based on the jurisdiction of subsidiaries making the sale.

Note 21. Subsequent events

In accordance with the requirements of Topic 855, *"Subsequent events,"* of the Codification, the Group evaluated subsequent events through the date the consolidated financial statements were available to be issued. Therefore subsequent events were evaluated by the Group up to November 21, 2012.