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

The following report represents management's discussion and analysis of the financial condition and results of operations of OAO LUKOIL as of June 30, 2009, and for the six and three months ended June 30, 2009 and 2008, and significant trends that may affect its future performance. It should be read in conjunction with our interim US GAAP consolidated financial statements and notes thereto.

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

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

Key financial and operational results

	1st half of		Change, %	2nd quarter of		Change, %
	2009	2008		2009	2008	
Sales (millions of US dollars)	34,861	56,890	(38.7)	20,116	31,935	(37.0)
Net income attributable to OAO LUKOIL (millions of US dollars)	3,229	7,293	(55.7)	2,324	4,130	(43.7)
EBITDA (millions of US dollars)	6,534	11,039	(40.8)	4,120	6,234	(33.9)
Taxes other than income taxes, excise and export tariffs (millions of US dollars)	(8,000)	(16,528)	(51.6)	(4,283)	(8,814)	(51.4)
Basic and diluted earning per share of common stock attributable to OAO LUKOIL (US dollars)	3.81	8.70	(56.2)	2.74	4.92	(44.2)
Hydrocarbon production by the Group including our share in equity affiliates (thousands of BOE)	401,730	396,117	1.4	201,467	196,623	2.5
Crude oil production by the Group including our share in equity affiliates (thousands of tonnes)	48,633	47,006	3.5	24,506	23,384	4.8
Gas available for sale produced by the Group including our share in equity affiliates (millions of cubic meters)	7,356	8,402	(12.4)	3,546	4,112	(13.8)
Refined products produced by our subsidiaries and affiliated refineries (thousands of tonnes)	28,768	25,459	13.0	15,190	12,999	16.9

During the first half of 2009, our net income was $3,229 million, which is $4,064 million, or 55.7%, less than in the same period of 2008.

Such decrease in our net income is mainly explained by a two-fold decrease in prices for hydrocarbons in the first half of 2009, compared to the respective period of 2008.

Business overview

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

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 24 founding subsidiaries to 100%. From formation, the Group has expanded substantially through consolidation of interests, acquisition of new companies and establishment of new businesses. Now LUKOIL is a global energy company operating through its subsidiaries in 36 countries on four continents.

LUKOIL is one of the world's largest energy companies in terms of hydrocarbon reserves. The Company's proved reserves as of January 1, 2009 amounted to 19.3 billion BOE and comprised of 14.5 billion BOE of crude oil and 29.3 trillion cubic feet of gas.

Our operations are divided into three main business segments:

- **Exploration and Production** – which includes our exploration, development and production operations relating to crude oil and natural gas. These activities are primarily located within Russia, with additional activities in Azerbaijan, Kazakhstan, Uzbekistan, the Middle East, South America, and Northern and Western Africa.

- **Refining, Marketing and Distribution** – which includes refining and transport operations, marketing and trading of crude oil, natural gas and refined products.

- **Chemicals** – which includes processing and trading of petrochemical products.

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

Changes in the Group structure

In June 2009, a Group company entered into an agreement with Total to acquire a 45% interest in the TRN refinery in the Netherlands for approximately $725 million subject to certain adjustments. The finalisation of the transaction is expected by the end of 2009. This acquisition is made in accordance with the Company's plans to develop its refining capacity in Europe.

In the first quarter of 2009, the Group acquired 100% interests in OOO Smolenskneftesnab, OOO IRT Investment, OOO PM Invest and OOO Retaier House for $238 million. These are holding companies, which between them own 96 petrol stations and plots of land in Moscow, the Moscow region and other regions of central European Russia. This acquisition was made in order to expand the Group's presence on the most advantageous retail market in the Russian Federation.

In the fourth quarter of 2008, the Group acquired a 100% interest in ZAO Association Grand and OOO Mega Oil M for $493 million. ZAO Association Grand and OOO Mega Oil M are holding companies, owning 181 petrol stations in Moscow, the Moscow region and other regions of central European Russia. This acquisition was made in order to expand the Group's presence on the most advantageous retail markets in the Russian Federation.

In July 2008, a Group company signed an agreement to acquire a 100% interest in the Akpet group for $555 million. The transaction was finalized in November 2008. The amended agreement provided for three payments of purchase consideration: the first payment in amount of $250 million was paid at the date of finalization, the second payment in amount of $150 million was paid in April 2009, and the third payment should be paid by the end of October 2009. The Akpet group operates 689 petrol filling stations on the basis of dealer agreements and owns eight refined product terminals, five LNG storage tanks, three jet fuel terminals and a lubricant production plant in Turkey.

In June 2008, a Group company signed an agreement with ERG S.p.A. to establish a joint venture to operate the ISAB refinery complex in Priolo, Italy. In December 2008, the Group completed the acquisition of a 49% stake in the joint venture for €1.45 billion (approximately $1.83 billion) and paid €600 million (approximately $762 million) as a first installment. The remaining amount was paid in February 2009. The seller has a put option, the effect of which would be to increase the Group's stake in the company operating the ISAB refinery complex up to 100%. The agreement states that each partner will be responsible for procuring crude oil and marketing refined products in line with its equity stake in the joint venture. The ISAB refinery complex has the flexibility to process Urals blend crude oil, and the Group integrated its share of the ISAB refinery complex capacity into its crude oil supply and refined products marketing operations. The ISAB refinery complex has an annual refining capacity of 16 million tonnes. The ISAB refinery complex also includes three jetties and storage tanks totaling 3,700 thousand cubic meters.

In March 2008, a Group company entered into an agreement to acquire 75 petrol stations and storage facilities in Bulgaria for approximately $367 million. The transaction was finalized in the second quarter of 2008.

In March 2008, a Group company acquired 100% of the share capital of the SNG Holdings Ltd. group for $578 million. The purchase agreement provided for two additional components of contingent purchase consideration in amount of $100 million each. During 2008, all conditions for contingent purchase consideration were met and a Group company completely settled its obligation under the purchase agreement. The SNG Holdings Ltd. group holds a 100% interest in a production sharing agreement in oil and gas condensate fields located in the South-Western Gissar and Ustyurt regions of Uzbekistan. The purpose of the acquisition was to increase the Group's presence in the Uzbekistan oil and gas sector.

In March 2008, a Group company entered into an agreement with a related party, whose management and directors include members of the Group's management and Board of Directors, to acquire a 64.31% interest in OAO UGK TGK-8 ("TGK-8") for approximately $2,117 million. The purchase consideration partly consisted of 23.55 million shares of common stock of the Company (at a market value of approximately $1,620 million). The transaction was finalized in May 2008. From May 2008 to June 2009, a Group company acquired the remaining interest in TGK-8 for a total of $1,202 million, increasing the Group's ownership to 100%. TGK-8 is one of the major gas consumers in the Southern Federal District with an annual consumption of 6 billion cubic meters per year. Its power plants are located in Astrakhan, Volgograd and Rostov regions, Krasnodar and Stavropol Districts, and the Republic of Dagestan of the Russian Federation with total productive capacity of 3.6 GW. By purchasing TGK-8 LUKOIL expects significant synergies through natural gas supplies from the Company's gas fields located in the Northern Caspian and in Astrakhan region, which will allow the Company to reach efficient gas price. This acquisition is made in accordance with the Company's plans to develop its electric power business.

In the first half of 2008, the Group acquired the remaining 3.09% of the share capital of OAO "LUKOIL-Nizhegorodnefteorgsintez" ("Nizhegorodnefteorgsintez") for $64 million increasing the Group's ownership in Nizhegorodnefteorgsintez to 100%. Nizhegorodnefteorgsintez is a refinery plant located in European Russia.

Operational highlights

Hydrocarbon production

We undertake exploration for, and production of, crude oil and natural gas in Russia and internationally. In Russia our major oil producing subsidiaries are LUKOIL-Western Siberia, LUKOIL-Komi and LUKOIL-Perm. Also we have a consolidated joint venture with ConocoPhillips, Narianmarneftegaz, in the Northern Timan-Pechora region. Exploration and production outside of Russia is performed by our 100% subsidiary LUKOIL-Overseas, that has stakes in PSA's and other projects in Kazakhstan, Azerbaijan, Uzbekistan, Saudi Arabia, Columbia, Ghana and Cote d'Ivoire.

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

	1st half of		2nd quarter of	
	2009	**2008**	**2009**	**2008**
Daily production of hydrocarbons, including the Company's share in equity affiliates (thousand BOE per day)	2,220	2,176	2,214	2,161
- crude oil	1,981	1,905	1,985	1,895
- natural and petroleum gas*	239	271	229	266
Hydrocarbon extraction expenses (US dollar per BOE)	3.25	4.09	3.40	4.31
	(millions of US dollars)			
Sales of gas and crude oil	9,418	13,739	5,525	7,488
Hydrocarbon extraction expenses	1,267	1,571	665	823
Exploration expenses	69	85	32	51
Mineral extraction tax	2,070	6,162	1,150	3,322

* Gas available for sale (excluding gas produced for our own consumption).

Crude oil production. In the first half of 2009, we increased our total daily crude oil production by 4.0%, compared to the same period of 2008. We produced (including the Company's share in equity affiliates) 358.4 million barrels, or 48.6 million tonnes.

The following table represents our crude oil production in the first halves of 2009 and 2008 by major regions.

(thousands of tonnes)	**1st half of 2009**	**Change to 2008**		**1st half of 2008**
		Total, %	**Organic change**	
Western Siberia	26,639	(6.1)	(1,732)	28,371
Timan-Pechora	10,616	40.2	3,043	7,573
Ural region	5,880	3.6	202	5,678
Volga region	1,446	(4.5)	(68)	1,514
Other in Russia	1,053	(1.9)	(20)	1,073
Crude oil produced in Russia	45,634	3.2	1,425	44,209
Crude oil produced internationally	1,774	11.3	180	1,594
Total crude oil produced by consolidated subsidiaries	**47,408**	**3.5**	**1,605**	**45,803**
Our share in crude oil produced by equity affiliates:				
in Russia	150	2.0	3	147
outside Russia	1,075	1.8	19	1,056
Total crude oil produced	**48,633**	**3.5**	**1,627**	**47,006**

The main oil producing region of the Company is Western Siberia where we produced 56.2% of our crude oil in Russia in the first half of 2009 (61.9% in the first half of 2008). In the first half of 2009, the Western Siberian producing assets continued to mature resulting in a production decline and water cut increase. A significant impact on our production in the period was caused by a lack of sufficient power generating capacities to meet the growing demand for extra power from a wide range of oil producers in Western Siberia as they faced the need to scale up pumping operations supporting crude oil production. In line with its strategy the Company is developing new oil fields in the Northern Timan-Pechora and Caspian regions in order to compensate for the decrease in crude oil production in the traditional regions. In August 2008, we began commercial production on the Yuzhnoye Khylchuyu oil field, located in the Timan-Pechora region. We produced 3.2 million tonnes from this field in the first half of 2009. We expect to reach annual production of 7.5 million tonnes on the Yuzhnoye Khylchuyu oil field. This oil field is developed within our strategic partnership with ConocoPhillips. In December 2009, we plan to begin production on the Yu. Korchagin field in the Caspian Sea. The maximum annual production from this field is expected to be 2.3 million tonnes of oil and gas condensate, and 1.2 billion cubic meters of gas.

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

	1st half of			
	2009		2008	
	(thousand of barrels)	(thousand of tonnes)	(thousand of barrels)	(thousand of tonnes)
Crude oil purchases in Russia	491	67	462	63
Crude oil purchases internationally	76,958	10,499	27,700	3,779
Total crude oil purchased	**77,449**	**10,566**	**28,162**	**3,842**

	2nd quarter of			
	2009		2008	
	(thousand of barrels)	(thousand of tonnes)	(thousand of barrels)	(thousand of tonnes)
Crude oil purchases in Russia	344	47	228	31
Crude oil purchases internationally	42,895	5,852	15,913	2,171
Total crude oil purchased	**43,239**	**5,899**	**16,141**	**2,202**

The increase in volumes of crude oil purchased internationally resulted from increased refining and trading. In the first half of 2009, we purchased 5,152 thousand tonnes in order to process at our and at third party refineries (including 2,603 thousand tonnes at the ISAB refinery complex), compared to 1,467 thousand tonnes in the first half of 2008.

Gas production. In the first half of 2009, we produced 7,356 million cubic meters of gas available for sale (including our share in equity affiliates), a decrease of 12.4%, compared to the same period of 2008.

Our major gas production field is the Nakhodkinskoe gas field, where we produced 2,951 million cubic meters of natural gas in the first half of 2009, compared to 4,287 million cubic meters in the first half of 2008. The 31.2% decrease in gas production from this field resulted from the decrease of purchases of our gas by OAO Gazprom, the Russian gas monopoly. This decrease was partly compensated by an increase in our international gas production. In the first half of 2009, our share in production from the Shakh-Deniz field in Azerbaijan was 299 million cubic meters, compared to 246 million cubic meters in the first half of 2008. Our production from the Khauzak gas field in Uzbekistan was 1,309 million cubic meters of natural gas, compared to 929 million cubic meters in the first half of 2008.

Refining, marketing and trading

Refining. We operate four refineries located in European Russia and three refineries located outside of Russia – in Bulgaria, Ukraine and Romania. In August 2005, we closed our refinery in Odessa, Ukraine to commence a wide-scale upgrade. In April 2008, we put it back into operation after the completion of the upgrade. The annual capacity of the Odessa refinery amounts to 2.8 million tonnes. At the end of 2008, we acquired 49% interest in the ISAB refinery complex in Priolo, Italy. This complex has an annual refining capacity of 16 million tonnes.

Compared to the first half of 2008, production at our consolidated and affiliated refineries increased by 13.0%. Russian refineries increased their production by 0.4%. In the first half of 2009, the production of our international refineries including our share of production at the ISAB refinery complex increased by 68.5%. At the same time, the production at our Romanian refinery was 21.1% lower due to overhaul performed at the refinery in January-February 2009. In the second quarter of 2009, production at the refinery stabilized and was 7.3% more than in the second quarter of 2008.

Our share of refined products produced at the ISAB refinery complex amounted to 3,008 thousand tonnes in the first half of 2009.

The Group is constantly improving the refined products mix at our refineries in order to produce more profitable products of higher quality. At our Russian refineries we produced 3,364 and 3,461 thousand tonnes of Euro 4 and Euro 5 diesel fuel in the first halves of 2009 and 2008, respectively. In the first halves of 2009 and 2008, our production of Euro 3 gasoline amounted to 2,213 and 1,806 thousand tonnes, respectively.

Along with our own production of refined products we refined crude oil at third party refineries. In Russia we processed crude oil at third party refineries primarily to supply our network in the Ural region and for export sales. To supply our retail networks in Eastern Europe we refined crude oil in Belarus and Serbia. Refined products processed in Belarus are used for supplying our local retail network and for wholesale export.

The following table summarizes key figures for our refining activities.

	1st half of		**2nd quarter of**	
	2009	**2008**	**2009**	**2008**
	(millions of US dollars)			
Own refining expenses	435	555	233	287
Refining expenses at third party and affiliated refineries	328	176	169	107
Capital expenditures	421	459	218	258
	(thousand barrels per day)			
Refinery throughput at the Group's and affiliated refineries	1,210	1,090	1,260	1,110
Refinery throughput at third party refineries	90	110	92	111
Total refinery throughput	**1,300**	**1,200**	**1,352**	**1,221**
	(thousand of tonnes)			
Refined products produced at the Group's refineries in Russia*	20,830	20,747	10,427	10,202
Refined products produced at the Group's and affiliated refineries outside Russia	7,938	4,712	4,763	2,797
Total refined products produced at the Group's and affiliated refineries	**28,768**	**25,459**	**15,190**	**12,999**
Refined products produced at third party refineries in Russia	1,243	1,508	579	806
Refined products produced at third party refineries outside Russia	729	1,031	414	522
Total refined products produced at third party refineries	**1,972**	**2,539**	**993**	**1,328**

* Excluding mini refineries.

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

The Group retails its refined products in 25 countries through 6.7 thousand petrol stations. Most of the stations operate under the LUKOIL brand. We continuously develop our retail business and LUKOIL brand by expanding our retail network.

The table below summarizes figures for our trading activities.

	1st half of		2nd quarter of	
	2009	2008	2009	2008
	(millions of US dollars)			
Retail sales	5,745	8,707	3,149	4,850
Wholesale sales	17,553	31,383	10,332	17,934
Total refined products sales	**23,298**	**40,090**	**13,481**	**22,784**
	(thousand of tonnes)			
Refined products purchased in Russia	217	823	131	342
Refined products purchased internationally	20,383	20,278	10,696	10,662
Total refined products purchased	**20,600**	**21,101**	**10,827**	**11,004**
Average daily sales through station in Russia, tonnes per day	7.8	8.4	8.3	8.9
Average daily sales through station outside of Russia, tonnes per day	4.6	5.5	4.7	5.6
Total average daily sales through stations, tonnes per day	**5.6**	**6.4**	**5.8**	**6.6**

As of June 30, 2009 and 2008, we had 1,974 and 1,749 petrol stations in Russia and 4,711 and 4,078 petrol stations abroad, respectively (excluding temporary idle and leased to third party stations). The number of petrol stations in Russia increased by 12.9% mainly as a result of the acquisition of ZAO Association Grand and OOO Mega Oil M in the fourth quarter of 2008. The expansion of our retail network outside of Russia was a result of the acquisition of the Akpet group in Turkey in December 2008.

Exports of crude oil and refined products from Russia. In the first half of 2009, our export of crude oil from Russia was 13.7% more than in the first half of 2008, and we exported 47.8% of our total domestic crude oil production (43.4% in the first half of 2008). This increase resulted from the commencement of production on the Yuzhnoye Khylchuyu oil field by our joint venture with ConocoPhillips, crude oil from which we export from Russia.

The volumes of crude oil exported from Russia by our subsidiaries are summarized as follows:

	1st half of			
	2009		2008	
	(thousand of barrels)	(thousand of tonnes)	(thousand of barrels)	(thousand of tonnes)
Exports of crude oil using Transneft export routes	128,781	17,569	134,535	18,354
Exports of crude oil bypassing Transneft	31,262	4,265	6,179	843
Total crude oil exports	**160,043**	**21,834**	**140,714**	**19,197**

	2nd quarter of			
	2009		2008	
	(thousand of barrels)	(thousand of tonnes)	(thousand of barrels)	(thousand of tonnes)
Exports of crude oil using Transneft export routes	63,493	8,662	68,961	9,408
Exports of crude oil bypassing Transneft	16,873	2,302	2,880	393
Total crude oil exports	**80,366**	**10,964**	**71,841**	**9,801**

In the first half of 2009, the crude oil exported through our own export infrastructure was 4,239 thousand tonnes or over five times more than in the first half of 2008. This was due to export of crude oil produced from the Yuzhnoye Khylchuyu oil field (3.2 million tonnes in the first half of 2009) through our export terminal in Varandey.

In the first half of 2009, we exported from Russia 14.1 million tonnes of refined products, an increase of 9.2%, compared to the same period of 2008. We export from Russia primarily diesel fuel, fuel oil and gasoil. These products account for approximately 89% of our refined products export volumes.

Main macroeconomic factors affecting our results of operations

Changes in the price of crude oil and refined products

The price at which we sell crude oil and refined products is the primary driver of our revenues. During the first half of 2009, the Brent crude oil price fluctuated between $39 and $71 per barrel and reached its peak of $71.47 in the middle of June.

In the first half of 2008, the crude oil prices were the highest ever in real terms. Starting from July 2008, crude oil prices began to descend and by the end of the year crude oil price dropped by more than $100 per barrel down to $37 per barrel driven mainly by the world economic downturn. During the first half of 2009, the crude oil price stabilized around $60 per barrel. Expectations for economic recovery help to resist the negative impact of fundamental factors. However, in order to support the price, significant strengthening of industry demand is required, which will help to liquidate record-high hydrocarbon stocks, that constantly press crude oil prices.

Substantially all crude oil we export is Urals blend. The following table shows the average crude oil and refined product prices for the respective periods of 2009 and 2008.

	1st half of		Change,	2nd quarter of		Change,
	2009	2008	%	2009	2008	%
	(in US dollars per barrel, except for figures in percent)					
Brent crude	51.68	109.05	(52.6)	59.13	121.18	(51.2)
Urals crude (CIF Mediterranean)*	50.99	105.22	(51.5)	58.48	117.24	(50.1)
Urals crude (CIF Rotterdam)*	50.94	105.50	(51.7)	58.46	117.47	(50.2)
	(in US dollars per metric tonne, except for figures in percent)					
Fuel oil 3.5% (FOB Rotterdam)	274.63	489.71	(43.9)	322.29	536.46	(39.9)
Diesel fuel 10 ppm (FOB Rotterdam)	471.25	1,044.68	(54.9)	506.37	1,188.53	(57.4)
High-octane gasoline (FOB Rotterdam)	496.84	944.74	(47.4)	586.56	1,050.28	(44.2)

Source: Platts.

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

Domestic crude oil and refined products prices

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

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

The table below represents average domestic wholesale prices of refined products in the respective periods of 2009 and 2008.

	1st half of		Change,	2nd quarter of		Change,
	2009	2008	%	2009	2008	%
	(in US dollars per metric tonne, except for figures in percent)					
Fuel oil	131.34	256.90	(48.9)	152.14	297.99	(48.9)
Diesel fuel	430.65	799.30	(46.1)	427.26	870.37	(50.9)
High-octane gasoline (Regular)	459.59	806.38	(43.0)	528.76	885.01	(40.3)
High-octane gasoline (Premium)	512.77	863.76	(40.6)	554.63	929.55	(40.3)

Source: InfoTEK (excluding VAT).

Changes in the US dollar-ruble exchange rate and inflation

A substantial part of our revenue is either denominated in US dollars or is correlated to some extent with US dollar crude oil prices, while most of our costs in the Russian Federation are settled in Russian rubles. Therefore, ruble inflation and movements of exchange rates can significantly affect the results of our operations. In particular, the real devaluation of the ruble against the US dollar generally causes our costs to decrease in US dollar terms, and vice versa. The appreciation of the purchasing power of the US dollar in the Russian Federation calculated on the basis of the ruble-dollar exchange rates and the level of inflation in Russia was 18.0% in the first half of 2009, compared to the same period of 2008. The period-end ruble-dollar exchange rate exceeded the opening rate by 6.5%.

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

	1st half of		2nd quarter of	
	2009	**2008**	**2009**	**2008**
Ruble inflation (CPI), %	7.5	8.8	1.9	3.8
Change of the ruble-dollar exchange rate, %	(6.5)	4.4	8.0	0.2
Average exchange rate for the period (ruble to US dollar)	33.07	23.94	32.21	23.63
Exchange rate at the end of the period (ruble to US dollar)	31.29	23.46	–	–

Tax burden

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

		1st half of		Change, %
		2009*	**2008***	
Export tariffs on crude oil	$/tonne	122.90	336.57	(63.5)
Export tariffs on refined products				
Light distillates (gasoline), middle distillates (jet fuel), diesel fuel and gasoils	$/tonne	95.11	239.05	(60.2)
Liquid fuels (fuel oil)	$/tonne	51.23	128.81	(60.2)
Excise on refined products				
Straight-run gasoline	RUR/tonne	3,900.00	2,657.00	46.8
High-octane gasoline	RUR/tonne	3,629.00	3,629.00	–
Low-octane gasoline	RUR/tonne	2,657.00	2,657.00	–
Diesel fuel	RUR/tonne	1,080.00	1,080.00	–
Motor oils	RUR/tonne	2,951.00	2,951.00	–
Mineral extraction tax				
Crude oil	RUR/tonne	1,873.57	3,701.90	(49.4)
Natural gas	RUR/1,000 m^3	147.00	147.00	–

* Average values.

		2nd quarter of 2009*	2nd quarter of 2008*	Change, %
Export tariffs on crude oil	$/tonne	133.55	359.22	(62.8)
Export tariffs on refined products				
Light distillates (gasoline), middle distillates (jet fuel), diesel fuel and gasoils	$/tonne	102.26	254.29	(59.8)
Liquid fuels (fuel oil)	$/tonne	55.08	137.02	(59.8)
Excise on refined products				
Straight-run gasoline	RUR/tonne	3,900.00	2,657.00	46.8
High-octane gasoline	RUR/tonne	3,629.00	3,629.00	–
Low-octane gasoline	RUR/tonne	2,657.00	2,657.00	–
Diesel fuel	RUR/tonne	1,080.00	1,080.00	–
Motor oils	RUR/tonne	2,951.00	2,951.00	–
Mineral extraction tax				
Crude oil	RUR/tonne	2,200.62	4,097.39	(46.3)
Natural gas	RUR/1,000 m^3	147.00	147.00	–

* Average values.

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

		1st half of 2009*	1st half of 2008*	Change, %
Excise on refined products				
Straight-run gasoline	$/tonne	117.94	110.97	6.3
High-octane gasoline	$/tonne	109.74	151.56	(27.6)
Low-octane gasoline	$/tonne	80.35	110.97	(27.6)
Diesel fuel	$/tonne	32.66	45.11	(27.6)
Motor oils	$/tonne	89.24	123.25	(27.6)
Mineral extraction tax				
Crude oil	$/tonne	56.66	154.61	(63.4)
Natural gas	$/1,000 m^3	4.45	6.14	(27.6)

* Average values.

		2nd quarter of 2009*	2nd quarter of 2008*	Change, %
Excise on refined products				
Straight-run gasoline	$/tonne	121.06	112.45	7.7
High-octane gasoline	$/tonne	112.65	153.59	(26.7)
Low-octane gasoline	$/tonne	82.48	112.45	(26.7)
Diesel fuel	$/tonne	33.53	45.71	(26.7)
Motor oils	$/tonne	91.60	124.89	(26.7)
Mineral extraction tax				
Crude oil	$/tonne	68.31	173.41	(60.6)
Natural gas	$/1,000 m^3	4.56	6.22	(26.7)

* Average values.

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

Crude oil extraction tax rate. During 2005-2008, the base rate was 419 rubles per metric tonne extracted and it was adjusted depending on the international market price of Urals blend and the ruble exchange rate. The tax rate was zero when the average Urals blend international market price for a tax period was less than or equal to $9.00 per barrel. Each $1.00 per barrel increase in the international Urals blend price over the threshold ($9.00 per barrel) resulted in an increase of the tax rate by $1.61 per tonne extracted (or $0.22 per barrel extracted using a conversion factor of 7.33).

Effective from January 1, 2009, the tax rate calculation was changed. The base rate remained the same, while the threshold crude oil price up to which the tax rate is zero was raised from $9.00 to $15.00 per barrel. This leads to a $1.3 per barrel decrease in crude oil extraction tax expenses in Russia. Also, the list of regions where, depending on the period and volume of production, the zero crude oil extraction tax rate applies was extended. In particular, it now includes Caspian offshore and the Nenetsky Autonomous District, where the Group explores and produces hydrocarbons.

Effective from January 1, 2007, the crude oil extraction tax rate varies depending on the development and depletion of a particular oilfield. The tax rate is zero for extra-heavy crude oil and for crude oil produced in certain regions of Eastern Siberia, depending on the period and volume of production. For crude oil produced in other regions the tax rate calculation described above should be multiplied by a coefficient characterizing the depletion of a particular oilfield. The coefficient is equal to 1.0 for oilfields with depletion below 80%. Each 1% increase of depletion of a particular oilfield above 80% results in a decrease of the coefficient by 0.035. The minimum value of the coefficient is 0.3. The depletion level assessment is based on crude oil production and reserves information reported to the Russian government.

Natural gas extraction tax rate. The mineral extraction tax on natural gas production is calculated using a flat rate. The current rate of 147 rubles per thousand cubic meters of natural gas extracted has been in effect since January 1, 2006.

Crude oil export duty rate is calculated on a progressive scale. The rate is zero when the average Urals blend international market price is less than or equal to approximately $15.00 per barrel ($109.50 per metric tonne). If the Urals blend price is between $15.00 and $20.00 per barrel ($146.00 per metric tonne), each $1.00 per barrel increase in the Urals blend price over $15.00 results in an increase of the crude oil export duty rate by $0.35 per barrel exported. If the Urals blend price is between $20.00 and $25.00 per barrel ($182.50 per metric tonne), each $1.00 per barrel increase in the Urals blend price over $20.00 results in an increase of the crude oil export duty rate by $0.45 per barrel exported. Each $1.00 per barrel increase in the Urals blend price over $25.00 per barrel results in an increase of the crude oil export duty rate by $0.65 per barrel exported.

Prior to October 1, 2008, the Russian government set export tariff rates for two-month periods. The rates in a specific two-month period were based on Urals blend international market prices in the preceding two months. Thus, the calculation method that the Russian government employed to determine export tariff rates resulted in a two-month gap between movements in crude oil prices and the revision of the export duty rate based on those crude oil prices.

This method of calculation was amended in September 2008. The Russian government set the specific crude oil export duty rate for October, November and December 2008 at $372.20, $287.30 and $192.10 per tonne, respectively, in order to compensate oil companies the negative effect of sharply decreased crude oil prices. Effective from December 2008, the crude oil export duty rate is revised monthly on the basis of the immediately preceding one-month period of crude oil price monitoring.

Export duty rates on refined products are set by the Russian government. The rate of export duty depends on internal demand for refined products and international crude oil market conditions.

Crude oil and refined products exported to CIS countries, other than Ukraine and Belarus, are not subject to export duties. Crude oil exported from Russia to Belarus is subject to export duties calculated in 2009 with the application of a coefficient 0.356 (0.335 in 2008) to the regular export duty rate set by the Russian government.

Excise on refined products. The responsibility to pay excises on refined products in Russia is imposed on refined product producers (except for straight-run gasoline). In other countries where the Group operates excises are paid either by producers or retailers depending on the local legislation.

Income tax. Before 2009, operations in the Russian Federation were subject to an income tax rate up to 24%. The Federal income tax rate was 6.5% and the regional income tax rate varied from 13.5% to 17.5% at the discretion of the individual regional administrations. Starting on January 1, 2009, the Federal income tax rate was decreased to 2.0% and the regional income tax rate varies between 13.5% and 18.0%. The Group's foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

Transportation of crude oil and refined products in Russia

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

Transportation of crude oil produced in Russia to refineries and export destinations is performed primarily through the trunk oil pipeline system of state-owned OAO AK Transneft. Access to the Transneft crude oil export pipeline network is allocated quarterly, based on recent volumes produced and delivered through the pipeline and proposed export destinations. The crude oil transported by Transneft is Urals blend – a mix of crude oils of various qualities. Therefore Russian companies that produce crude oil of a higher quality, cannot obtain benefits from selling it using Transneft's pipeline. Alternative access to international markets bypassing Transneft's export routes can be obtained through railroad transport, by tankers, and by the export infrastructure of oil producing companies. Our own export infrastructure includes the Vysotsk terminal in the Leningrad region, the Varandey terminal in the Nenetsky Autonomous District and the Svetly terminal in the Kaliningrad region. We use the offshore ice-resistant terminal in Varandey with annual capacity of 12 million tonnes to export crude oil produced by our joint venture with ConocoPhillips located in Northern Timan-Pechora. The Svetly terminal exports crude oil primarily produced by OOO LUKOIL-Kaliningradmorneft, our subsidiary operating in the Kaliningrad region, and refined products. Its annual capacity is 6 million tonnes. We use the Vysotsk terminal to export refined products. In the future we expect to use the terminal to export both crude oil and refined products, depending on market conditions. Currently it has a capacity of 12 million tonnes per year and it can be expanded up to 15 million tonnes per year.

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

As the activities of the above mentioned companies fall under the scope of natural monopolies, the fundamentals of their tariff policies are defined by the state authorities to ensure the balance of interests of the state and all participants in the transportation process. Transportation tariffs of natural monopolies are set by the Federal Service for Tariffs of the Russian Federation ("FST"). The tariffs are dependent on transport destination, delivery volume, distance of transportation, and several other factors. Changes in the tariffs depend on inflation forecasts by the Ministry of Economic Development of the Russian Federation, the investment needs of owners of the transport infrastructure, other macroeconomic factors, and compensation of economically reasonable expense, incurred by entities of the natural monopolies. Tariffs are revised by the FST at least annually.

Six months ended June 30, 2009, compared to six months ended June 30, 2008

The table below details certain income and expense items from our consolidated statements of income for the periods indicated.

	1st half of 2009	1st half of 2008
	(millions of US dollars)	
Revenues		
Sales (including excise and export tariffs)	34,861	56,890
Costs and other deductions		
Operating expenses	(3,108)	(3,678)
Cost of purchased crude oil, gas and products	(13,272)	(21,119)
Transportation expenses	(2,356)	(2,554)
Selling, general and administrative expenses	(1,520)	(1,790)
Depreciation, depletion and amortization	(2,003)	(1,327)
Taxes other than income taxes	(2,593)	(6,752)
Excise and export tariffs	(5,407)	(9,776)
Exploration expense	(69)	(85)
Gain (loss) on disposals and impairments of assets	12	(191)
Income from operating activities	**4,545**	**9,618**
Interest expense	(334)	(164)
Interest and dividend income	65	74
Equity share in income of affiliates	182	282
Currency translation (loss) gain	(124)	33
Other non-operating income (expense)	61	(118)
Income before income taxes	**4,395**	**9,725**
Current income taxes	(837)	(2,440)
Deferred income taxes	(196)	111
Total income tax expense	**(1,033)**	**(2,329)**
Net income	**3,362**	**7,396**
Less: net income attributable to noncontrolling interests	(133)	(103)
Net income attributable to OAO LUKOIL	**3,229**	**7,293**
Basic and diluted earning per share of common stock attributable to OAO LUKOIL (in US dollars)	3.81	8.70

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

Sales revenues

Sales breakdown	**1st half of 2009**	**1st half of 2008**
	(millions of US dollars)	
Crude oil		
Export and sales on international markets other than CIS	8,275	12,199
Export and sales to CIS	781	868
Domestic sales	43	330
	9,099	**13,397**
Refined products		
Export and sales on international markets		
Wholesale	15,908	27,256
Retail	3,990	6,136
Domestic sales		
Wholesale	1,645	4,127
Retail	1,755	2,571
	23,298	**40,090**
Petrochemicals		
Export and sales on international markets	274	804
Domestic sales	176	481
	450	**1,285**
Gas and gas products		
Export and sales on international markets	494	422
Domestic sales	219	515
	713	**937**
Other		
Export and sales on international markets	510	606
Domestic sales	791	575
	1,301	**1,181**
Total sales	**34,861**	**56,890**

Sales volumes	**1st half of 2009**	**1st half of 2008**
Crude oil	(thousands of barrels)	
Export and sales on international markets other than CIS	164,221	117,522
Export and sales to CIS	20,165	12,248
Domestic sales	1,231	6,700
	185,617	**136,470**
Crude oil	(thousands of tonnes)	
Export and sales on international markets other than CIS	22,404	16,033
Export and sales to CIS	2,751	1,671
Domestic sales	168	914
	25,323	**18,618**
Refined products	(thousands of tonnes)	
Export and sales on international markets		
Wholesale	37,888	33,197
Retail	3,924	4,055
Domestic sales		
Wholesale	4,860	6,785
Retail	2,804	2,662
	49,476	**46,699**
Total sales volume of crude oil and refined products	**74,799**	**65,317**

Realized average sales prices

	1st half of 2009 ($/barrel)	1st half of 2009 ($/tonne)	1st half of 2008 ($/barrel)	1st half of 2008 ($/tonne)
Average realized price international				
Oil (excluding CIS)	50.39	369.34	103.81	760.91
Oil (CIS)	38.74	283.93	70.85	519.35
Refined products				
Wholesale		419.87		821.05
Retail		1,016.64		1,513.32
Average realized price within Russia				
Oil	34.84	255.41	49.23	360.83
Refined products				
Wholesale		338.46		608.11
Retail		625.79		966.08

During the first half of 2009, our revenues decreased by $22,029 million, or by 38.7%, compared to the same period of 2008. Our revenues from crude oil sales decreased by $4,298 million, or by 32.1%, and revenues from sales of refined products decreased by $16,792 million, or by 41.9%. The decrease in sales was due to the two-fold decrease in hydrocarbon prices, compared to the first half of 2008. Moreover, the devaluation of the ruble against the US dollar, in the first half of 2009, also seriously affected our average realized prices in Russia.

At the same time, we increased crude oil production and trading, which raised our sales by 36.0% in terms of volumes. The increase in crude oil production was attributable to commencement of production on the Yuzhnoye Khylchuyu oil field in August 2008, from which we produced about 3.2 million tonnes in the first half of 2009.

We also increased our refined product sales outside of Russia in terms of volumes by 12.2%, mainly due to commencement of processing at the ISAB refinery complex at the end of 2008. In the first half of 2009, our share of production at this refinery amounted to 3.0 million tonnes.

Sales of crude oil and refined products on international markets, including the CIS, accounted for 89.5% of the total sales volume in the first half of 2009 (in the first half of 2008 – 84.1%).

Sales of crude oil

The 32.1% decrease in our total crude oil sales revenues was attributable primarily to a decrease in our international crude oil sales revenues (excluding CIS). This sales revenue, which accounted for approximately 90.9% of our total crude oil sales revenue in the first half of 2009 and 91.1% in the first half of 2008, decreased by 32.2% due to a decrease in sales prices by 51.5%. At the same time, the volume of international crude oil sales increased by 39.7% due to increased crude oil export from Russia and trading.

Sales of refined products

In the first half of 2009, our revenue from the wholesale of refined products outside Russia decreased by $11,348 million, or by 41.6%, compared to the same period of 2008, due to decreased average realized price by 48.9%. At the same time, commencement of crude oil refining at the ISAB refinery complex and in Ukraine led to an increase in volumes sold by 14.1%.

In the first half of 2009, our revenue from international retail sales decreased by $2,146 million, or by 35.0%, compared to the same period of 2008, mainly due to a decrease in average retail prices by 32.8%.

In the first half of 2009, our revenue from the wholesale of refined products on the domestic market decreased by $2,482 million, or by 60.1%, compared to the same period of the previous year, due to a decrease in the average realized price by 44.3%, and a decrease in volumes sold by 1,925 thousand tonnes, or by 28.4%. The decrease in volume sold was a result of decreased domestic purchases and increased refined product exports from Russia.

In the first half of 2009, our revenue from retail sales in Russia decreased by $816 million, or by 31.7%, compared to the same period of 2008, due to a decrease in prices. Revenue from retail sales was 51.6% of total refined products sales in Russia in the first half of 2009 (in the first half of 2008 – 38.4%).

Sales of petrochemical products

In the first half of 2009, our revenue from sales of petrochemical products decreased by $835 million, or by 65.0%, compared to the same period of 2008. This resulted from a decrease in prices by 51.9% and a decrease in sales volumes by 27.4%. The decrease in volumes resulted from a temporary shutdown of our petrochemical plant Karpatnaftochim Ltd., Ukraine. In May 2008, this plant was stopped for modernization and construction of a chlorine and caustic production line. Besides, the overall negative situation on the world petrochemical markets led to a decrease in sales volumes.

Sales of gas and gas products

In the first half of 2009, sales of gas and gas refined products amounted to $713 million, which is 23.9% less than in the first half of 2008. Gas products sales revenue decreased by $201 million, or by 33.8%, compared to the same period of 2008. This was a result of decrease both in prices and sales volumes. The decrease in volumes was due to increased own consumption, including supplies to TGK-8, acquired in May 2008. Natural gas sales revenue amounted to $308 million – a decrease of 6.1%, compared to the same period of 2008. Decrease in domestic sales volumes and selling prices were partly compensated by an increase in selling price in Uzbekistan.

Our major purchaser of natural gas produced in the Russian Federation is OAO Gazprom. In the first half of 2009, we sold 2,951 million cubic meters of natural gas to OAO Gazprom (4,043 million cubic meters in the first half of 2008). The average realized price decreased by 27.6% to $32 per 1,000 cubic meters as a result of the ruble devaluation.

Sales of other products

Other sales include sales through our retail network, other services provided and goods not related to our primary activities (such as electricity, heat, transportation, etc.) sold by our production and marketing companies and revenue of our electric power generating companies.

In the first half of 2009, our other sales increased by $120 million, or by 10.2%. The main reason for the increase in other sales was revenue of our power generation subsidiaries (mainly TGK-8, acquired in May 2008). However, this increase was partly offset by a decrease in other sales outside of Russia primarily through retail stations and transportation services, and effect of devaluation of the ruble in Russia.

During the first half of 2009, sales of goods and other products from our retail stations amounted to $260 million, a decrease of $41 million from the level of the first half of 2008. This was mainly because of an overall decrease of such sales outside of Russia as a result of the adverse macroeconomic environment.

Operating expenses

Operating expenses include the following:

	1st half of	
	2009	**2008**
	(millions of US dollars)	
Hydrocarbon extraction expenses	1,267	1,571
Own refining expenses	435	555
Refining expenses at third party and affiliated refineries	328	176
Excise included in the processing fee paid to third party refineries	36	64
Petrochemical expenses	54	141
Expenses for crude oil transportation to refineries	465	537
Other operating expenses	815	832
	3,400	**3,876**
Change in operating expenses in crude oil and refined products inventory originating within the Group*	(292)	(198)
Total operating expenses	**3,108**	**3,678**
Cost of purchased crude oil, petroleum and chemical products	**13,272**	**21,119**

* The change in operating expenses in crude oil and refined products inventory originating within the Group includes extraction and refining expenses related to crude oil and refined products produced by the Group during the reporting period, but not sold to third party.

Compared to the first half of 2008, operating expenses decreased by $570 million, or by 15.5%, which is mainly explained by general decrease in operating expenses in Russia due to the ruble devaluation. At the same time, refining expenses at third party and affiliated refineries increased significantly due to the commencement of refining crude oil at the ISAB complex at the end of 2008.

Hydrocarbon extraction expenses

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

In the first half of 2009, our extraction expenses decreased by $304 million, or by 19.4%, compared to the same period of 2008, despite increased crude oil production by 3.5% and an increase in expenses for power supply. The decrease was mainly a result of the effect of the real ruble devaluation against the US dollar and a cost cutting program implemented in the fourth quarter of 2008. Our average hydrocarbon extraction cost decreased from $4.09 to $3.25 per BOE, or by 20.5%, compared to the same period of 2008.

Own refining expenses

In the first half of 2009, our refining expenses decreased by $120 million, or by 21.6%, compared to the same period of 2008.

Refining expenses at our domestic refineries decreased by 21.2%, or by $83 million, mainly as a result of the devaluation of the ruble against the US dollar and cost cutting program implemented in the fourth quarter of 2008.

Refining expenses at our international refineries decreased by 22.7%, or by $37 million. This resulted from a decrease in the cost of power supply at the refinery in Bulgaria. In the first half of 2009, we produced energy from our own resources, while, in the first half of 2008, we purchased gas for this purpose from third party. At the same time, refining expense increased in Romania due to overhaul in January-February 2009, and due to putting the Ukraine refinery back into operation in April 2008.

Refining expenses at third party and affiliated refineries

Along with our own production of refined products we refined crude oil at third party and affiliated refineries both in Russia and abroad.

In the first half of 2009, refining expenses at third party and affiliated refineries increased by 86.4%, compared to the same period of 2008, because in December 2008, we commenced crude oil refining at the ISAB refinery complex.

Petrochemical operating expenses

In the first half of 2009, operating expenses of our petrochemical companies decreased by $87 million, or by 61.7%, compared to the same period of 2008, due to a general decrease of production volumes. Also, in May 2008, we stopped our petrochemical plant Karpatnaftochim Ltd., Ukraine, for modernization and construction of a chlorine and caustic production line.

Expenses for crude oil transportation to refineries

Expenses for crude oil transportation to refineries decreased in the first half of 2009 by $72 million, or by 13.4%, compared to the same period of 2008, due to a decrease in transportation tariffs in Russia (see Transportation expenses below), and change in crude oil supply structure – an increase in portion of purchased crude oil.

Other operating expenses

Other operating expenses include expenses of the Group's upstream and downstream enterprises that do not relate to their core activities, namely sales of electricity, heat, transportation services, other goods, etc., operating expenses of our gas processing plants, the costs of other services provided and goods sold by our marketing companies, and operating expenses of our power generating companies and of other non-core businesses of the Group.

In the first half of 2009, our other operating expenses decreased by $17 million, or by 2.0%, compared to the same period of 2008. The structural increase of other operating expenses by $79 million related to TGK-8 was compensated by the devaluation of the ruble against the US dollar, and a decrease in expenses related to other sales through petrol stations and transportation services outside of Russia.

Cost of purchased crude oil, gas and products

Cost of purchased crude oil, gas and products decreased by $7,847 million in the first half of 2009, or by 37.2%, compared to the same period of 2008, due to a decrease in international crude oil and refined products prices. The effect of decreased prices was partly compensated by an increase in crude oil purchases.

Cost of purchased crude oil, gas and products includes the result of hedging of international crude oil and refined products sales. In the first half of 2009, we recognized a $542 million expense from hedging, compared to an expense of $719 million in the first half of 2008.

Cost of purchased crude oil, gas and products included purchases of natural gas and fuel oil to supply TGK-8.

Transportation expenses

In the first half of 2009, our transportation expenses decreased by $198 million, or by 7.8%, compared to the same period of 2008. This was primarily due to a decrease in freight rates and transportation tariffs in Russia. Transportation tariffs in Russia denominated in rubles significantly increased in the first half of 2009, however, this increase was compensated by the ruble devaluation.

Our actual transportation expenses related to crude oil and refined products deliveries to various export destinations, weighted by volumes transported, changed in the first half of 2009, compared to the same period of the previous year, as follows: crude oil pipeline tariffs increased by 1.0%, railway tariffs for refined products transportation decreased by 15.1%, crude oil and refined products freight rates decreased by 28.9% and 40.0%, respectively.

Selling, general and administrative expenses

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

In the first half of 2009, our selling, general and administrative expenses decreased by $270 million, or by 15.1%, compared to the same period of 2008. The decrease was primarily due to the devaluation of the ruble. At the same time, the structural changes in the Group in 2008 led to a $54 million increase in these expenses in the first half of 2009.

Depreciation, depletion and amortization

Depreciation, depletion and amortization expenses include depletion of assets fundamental to production, depreciation of other productive and non-productive assets and certain intangible assets.

Our depreciation, depletion and amortization expenses increased by $676 million, or by 50.9%, compared to the same period of 2008. The increase was a result of the Company’s capital expenditures and the corresponding increase in depreciable assets, in particular due to putting in production the Yuzhnoe Khylchuyu oil field. Moreover, the decrease of our proved reserves in 2008 and increase of crude oil production resulted in an increase in depreciation of our oil and gas producing assets.

Interest expense

In the first half of 2009, interest expense amounted to $334 million, which is twice more than in the respective period of the previous year. This was a result of the termination of interest capitalization related to certain assets in Timan-Pechora after completion of their construction and a general increase in our indebtedness, including loans received from Sberbank and Gazprombank in the first quarter of 2009.

Equity share in income of affiliates

The Group has investments in equity method affiliates and corporate joint ventures. These companies are primarily engaged in crude oil exploration, production, marketing and distribution operations in the Russian Federation, crude oil production and marketing in Kazakhstan and refining operations in Europe.

Compared to the first half of 2008, our share in income of affiliates decreased by $100 million, or by 35.5%, due to an overall decrease in profitability of our affiliates because of the adverse macroeconomic environment as a consequence of the economic downturn.

Taxes other than income taxes

	1st half of	
	2009	**2008**
	(millions of US dollars)	
In Russia		
Mineral extraction taxes	2,047	6,162
Social security taxes and contributions	201	268
Property tax	197	180
Other taxes	38	65
Total in Russia	**2,483**	**6,675**
International		
Mineral extraction taxes	23	–
Social security taxes and contributions	31	40
Property tax	15	15
Other taxes	41	22
Total internationally	**110**	**77**
Total	**2,593**	**6,752**

In the first half of 2009, taxes other than income taxes decreased by 61.6%, or by $4,159 million, compared to the same period of 2008, mainly due to a decrease in mineral extraction taxes in Russia. This is explained by a decrease in the tax rate resulting from the low level of crude oil prices. Moreover, the change in the tax rate calculation effective from January 1, 2009, together with an effect from the application of the zero tax rate for crude oil produced in Northern Timan-Pechora led to more than $600 million reduction.

Excise and export tariffs

Our excise and export tariffs include taxes on sales of refined products and export tariffs on the export of crude oil and refined products.

	1st half of	
	2009	**2008**
	(millions of US dollars)	
In Russia		
Excise tax and sales taxes on refined products	352	473
Crude oil export tariffs	2,370	5,633
Refined products export tariffs	927	1,679
Total in Russia	**3,649**	**7,785**
International		
Excise tax and sales taxes on refined products	1,680	1,878
Crude oil export tariffs	40	–
Refined products export tariffs	38	113
Total internationally	**1,758**	**1,991**
Total	**5,407**	**9,776**

In spite of an increase in crude oil export volumes, export tariffs decreased by $4,050 million, or by 54.5%, compared to the same period of 2008, due to the decrease in tariff rates in Russia because of the crude oil prices decline. The decrease in excises in Russia was due to the ruble devaluation. Despite the changes in the Group structure, which resulted in $54 million of excise increase, our international excises decreased due to a decrease in volumes sold.

Income taxes

In the first half of 2009, our total income tax expense decreased by $1,296 million, or by 55.6%, compared to the same period of 2008, due to the decrease in income before income tax by $5,330 million, or by 54.8%.

In the first half of 2009, our effective income tax rate was 23.5%, compared to 23.9% in the first half of 2008, which is higher than the maximum statutory rate for the Russian Federation (20% in the first half of 2009 and 24% in the first half of 2008).

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

	1st half of	
	2009	**2008**
	(millions of US dollars)	
Net income attributable to OAO LUKOIL	**3,229**	**7,293**
Add back:		
Income tax expense	1,033	2,329
Depreciation and amortization	2,003	1,327
Interest expense	334	164
Interest and dividend income	(65)	(74)
EBITDA	**6,534**	**11,039**

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

Three months ended June 30, 2009, compared to three months ended June 30, 2008

The table below details certain income and expense items from our consolidated statements of income for the periods indicated.

	2nd quarter of	
	2009	**2008**
	(millions of US dollars)	
Revenues		
Sales (including excise and export tariffs)	20,116	31,935
Costs and other deductions		
Operating expenses	(1,876)	(1,770)
Cost of purchased crude oil, gas and products	(7,910)	(12,511)
Transportation expenses	(1,187)	(1,359)
Selling, general and administrative expenses	(791)	(994)
Depreciation, depletion and amortization	(1,009)	(703)
Taxes other than income taxes	(1,395)	(3,623)
Excise and export tariffs	(2,888)	(5,191)
Exploration expense	(32)	(51)
Loss on disposals and impairments of assets	(15)	(186)
Income from operating activities	**3,013**	**5,547**
Interest expense	(171)	(92)
Interest and dividend income	27	49
Equity share in income of affiliates	71	153
Currency translation loss	(109)	(36)
Other non-operating income (expense)	62	(70)
Income before income taxes	**2,893**	**5,551**
Current income taxes	(537)	(1,376)
Deferred income taxes	(106)	18
Total income tax expense	**(643)**	**(1,358)**
Net income	**2,250**	**4,193**
Less: net loss (net income) attributable to noncontrolling interests	74	(63)
Net income attributable to OAO LUKOIL	**2,324**	**4,130**
Basic and diluted earning per share of common stock attributable to OAO LUKOIL (in US dollars)	2.74	4.92

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

Sales revenues

Sales breakdown	2nd quarter of 2009	2nd quarter of 2008
	(millions of US dollars)	
Crude oil		
Export and sales on international markets other than CIS	4,836	6,657
Export and sales to CIS	457	543
Domestic sales	38	82
	5,331	**7,282**
Refined products		
Export and sales on international markets		
Wholesale	9,504	15,720
Retail	2,194	3,395
Domestic sales		
Wholesale	828	2,214
Retail	955	1,455
	13,481	**22,784**
Petrochemicals		
Export and sales on international markets	146	401
Domestic sales	100	256
	246	**657**
Gas and gas products		
Export and sales on international markets	308	265
Domestic sales	117	257
	425	**522**
Other		
Export and sales on international markets	265	334
Domestic sales	368	356
	633	**690**
Total sales	**20,116**	**31,935**

Sales volumes	2nd quarter of 2009	2nd quarter of 2008
Crude oil	(thousands of barrels)	
Export and sales on international markets other than CIS	84,830	57,482
Export and sales to CIS	10,101	6,809
Domestic sales	931	1,320
	95,862	**65,611**
Crude oil	(thousands of tonnes)	
Export and sales on international markets other than CIS	11,573	7,842
Export and sales to CIS	1,378	929
Domestic sales	127	180
	13,078	**8,951**
Refined products	(thousands of tonnes)	
Export and sales on international markets		
Wholesale	20,145	17,128
Retail	2,037	2,080
Domestic sales		
Wholesale	2,339	3,168
Retail	1,492	1,421
	26,013	**23,797**
Total sales volume of crude oil and refined products	**39,091**	**32,748**

Realized average sales prices

	2nd quarter of 2009		2008	
	($/barrel)	($/tonne)	($/barrel)	($/tonne)
Average realized price international				
Oil (excluding CIS)	57.01	417.89	115.82	848.99
Oil (CIS)	45.22	331.45	79.69	584.16
Refined products				
Wholesale		471.80		917.86
Retail		1,076.97		1,632.26
Average realized price within Russia				
Oil	40.05	293.58	61.98	454.34
Refined products				
Wholesale		354.11		698.35
Retail		639.50		1,024.57

During the second quarter of 2009, our revenues decreased by $11,819 million, or by 37.0%, compared to the same period of 2008. Our revenues from crude oil sales decreased by $1,951 million, or by 26.8%, our revenues from sales of refined products decreased by $9,303 million, or by 40.8%. The decrease in sales was due to the two-fold decrease in hydrocarbon prices, compared to the second quarter of 2008. Moreover, the devaluation of the ruble against the US dollar in 2009 also seriously affected our average realized prices in Russia.

At the same time, we increased crude oil production and trading, which raised our sales by 46.1% in terms of volumes. Increase in production was mainly attributable to the commencement of production from the Yuzhnoye Khylchuyu oil field, we were produced 1.7 million tonnes in the second quarter of 2009.

We also increased our refined product sales outside of Russia in terms of volumes by 15.5%, mainly due to commencement of production at the ISAB refinery complex at the end of 2008. In the second quarter of 2009, our share of production at this refinery amounted to 1.8 million tonnes.

Sales of crude oil and refined products on international markets, including the CIS, accounted for 89.9% of the total sales volume in the second quarter of 2009 (in the second quarter of 2008 – 85.4%).

Sales of crude oil

The 26.8% decrease in our total crude oil sales revenue was attributable primarily to a decrease in our international crude oil sales revenues (excluding CIS). This sales revenue, which accounted for approximately 90.7% of our total crude oil sales revenue in the second quarter of 2009 and 91.4% in the second quarter of 2008, decreased by 27.4% due to a decrease in sales prices by 50.8%. At the same time, the volume of international crude oil sales increased by 47.6% due to increased crude oil export from Russia and an increase in trading.

Sales of refined products

In the second quarter of 2009, our revenue from the wholesale of refined products outside Russia decreased by $6,216 million, or by 39.5%, compared to the same period of 2008, due to decreased average realized price by 48.6%. At the same time, commencement of crude oil refining at the ISAB refinery complex and in Ukraine led to an increase in volumes sold by 17.6%.

In the second quarter of 2009, our revenue from international retail sales decreased by $1,201 million, or by 35.4%, compared to the same period of 2008, mainly due to a decrease in average retail prices by 34.0%.

In the second quarter of 2009, our revenue from the wholesale of refined products on the domestic market decreased by $1,386 million, or by 62.6%, compared to the same period of the previous year, due to a decrease in the average realized price by 49.3%, and a decrease in volumes sold by 829 thousand tonnes, or by 26.2%. The decrease in volume sold was a result of increased refined product exports from Russia.

In the second quarter of 2009, our revenue from retail sales in Russia decreased by $500 million, or by 34.4%, compared to the same period of 2008, due to a decrease in prices. Revenue from retail sales was 53.6% of total refined products sales in Russia in the second quarter of 2009 (in the second quarter of 2008 – 39.7%).

Sales of petrochemical products

In the second quarter of 2009, our revenue from sales of petrochemical products decreased by $411 million, or by 62.6%, compared to the same period of 2008. This resulted from a decrease in prices by 46.6% and a decrease in sales volumes by 39.0%. The decrease in volumes resulted from a temporary shutdown of our petrochemical plant Karpatnaftochim Ltd., Ukraine. In May 2008, this plant was stopped for modernization and construction of a chlorine and caustic production line. Besides, the overall negative situation on the world petrochemical markets led to a decrease in sales volumes.

Sales of gas and gas products

In the second quarter of 2009, sales of gas and gas refined products amounted to $425 million, which is 18.6% less than in the second quarter of 2008. Gas products sales revenue decreased by $86 million, or by 27.2%, compared to the same period of 2008. This was a result of decrease both in prices and sales volumes. The decrease in volumes was due to increased own consumption, including supplies to TGK-8, acquired in May 2008. Natural gas sales revenue amounted to $188 million – a decrease of 6.5%, compared to the same period of 2008. Decrease in domestic sales volumes and selling prices were partly compensated by an increase in selling price in Uzbekistan.

Our major purchaser of natural gas produced in the Russian Federation is OAO Gazprom. In the second quarter of 2009, we sold 1,385 million cubic meters of natural gas to OAO Gazprom (2,024 million cubic meters in the second quarter of 2008). The average realized price decreased by 26.5% to $33 per 1,000 cubic meters as a result of the ruble devaluation.

Sales of other products

In the second quarter of 2009, our other sales decreased by $57 million, or by 8.3%, which mainly resulted from a decrease in transportation services provided outside of Russia. The structural increase relating to our power generation subsidiary TGK-8 acquired in May 2008 was mitigated by ruble devaluation.

Operating expenses

Operating expenses include the following:

	2nd quarter of 2009	2nd quarter of 2008
	(millions of US dollars)	
Hydrocarbon extraction expenses	665	823
Own refining expenses	233	287
Refining expenses at third party and affiliated refineries	169	107
Excise included in the processing fee paid to third party refineries	14	31
Petrochemical expenses	25	61
Expenses for crude oil transportation to refineries	256	275
Other operating expenses	461	448
	1,823	**2,032**
Change in operating expenses in crude oil and refined products inventory originating within the Group*	53	(262)
Total operating expenses	**1,876**	**1,770**
Cost of purchased crude oil, petroleum and chemical products	**7,910**	**12,511**

* The change in operating expenses in crude oil and refined products inventory originating within the Group includes extraction and refining expenses related to crude oil and refined products produced by the Group during the reporting period, but not sold to third parties.

Compared to the second quarter of 2008, operating expenses increased by $106 million, or by 6.0%, which is mainly explained by the change in operating expenses in inventory. On the contrary, our operating expenses in Russia decreased due to the ruble devaluation. At the same time, refining expenses at third party and affiliated refineries increased significantly due to the commencement of crude oil refining at the ISAB refinery complex at the end of 2008.

Hydrocarbon extraction expenses

In the second quarter of 2009, our extraction expenses decreased by $158 million, or by 19.2%, compared to the same period of 2008, despite increased crude oil production by 4.9% and an increase in expenses for power supply. The decrease was mainly a result of the effect of the real ruble devaluation against the US dollar and a cost cutting program implemented in the fourth quarter of 2008. Our average hydrocarbon extraction cost decreased from $4.31 to $3.40 per BOE, or by 21.1%, compared to the same period of 2008.

Own refining expenses

In the second quarter of 2009, refining expenses decreased by $54 million, or by 18.8%, compared to the same period of 2008.

Refining expenses at our domestic refineries decreased by 16.6%, or by $33 million, mainly as a result of the devaluation of the ruble against the US dollar.

Refining expenses at our international refineries decreased by 23.9%, or by $21 million. This resulted mainly from a decrease in the cost of power supply at the refinery in Bulgaria. In the second quarter of 2009, we produced energy from our own resources, while, in the second quarter of 2008, we purchased gas for this purpose from third parties.

Refining expenses at third party and affiliated refineries

In the second quarter of 2009, refining expenses at third party and affiliated refineries increased by 57.9%, compared to the same period of 2008, because in December 2008, we commenced crude oil refining at the ISAB refinery complex.

Petrochemical operating expenses

In the second quarter of 2009, operating expenses of our petrochemical companies decreased by $36 million, or by 59.0%, compared to the same period of 2008, due to a general decrease of production volumes. Also, in May 2008, we stopped our petrochemical plant Karpatnaftochim Ltd., Ukraine, for modernization and construction of a chlorine and caustic production line.

Expenses for crude oil transportation to refineries

Expenses for crude oil transportation to refineries decreased in the second quarter of 2009 by $19 million, or by 6.9%, compared to the same period of 2008, due to a decrease in transportation tariffs in Russia, and change in crude oil supply structure – an increase in portion of purchased crude oil.

Other operating expenses

In the second quarter of 2009, our other operating expenses increased by $13 million, or by 2.9%, compared to the same period of 2008.

Cost of purchased crude oil, gas and products

Cost of purchased crude oil, gas and products decreased by $4,601 million in the second quarter of 2009, or by 36.8%, compared to the same period of 2008, due to a decrease in international crude oil and refined products prices. The effect of decreased prices was partly compensated by an increase in crude oil purchases.

Cost of purchased crude oil, gas and products includes the result of hedging of international crude oil and refined products sales. In the second quarter of 2009, we recognized a $487 million expense from hedging, compared to an expense of $621 million in the second quarter of 2008.

Cost of purchased crude oil, gas and products included purchases of natural gas and fuel oil to supply TGK-8.

Transportation expenses

In the second quarter of 2009, our transportation expenses decreased by $172 million, or by 12.7%, compared to the same period of 2008. This was primarily due to a decrease in freight rates and transportation tariffs in Russia. Transportation tariffs in Russia denominated in rubles significantly increased in the second quarter of 2009, however, this increase was compensated by the ruble devaluation.

Selling, general and administrative expenses

In the second quarter of 2009, our selling, general and administrative expenses decreased by $203 million, or by 20.4%, compared to the same period of 2008. The decrease was primarily a result of the ruble devaluation and our cost cutting program. At the same time, the structural changes in the Group in 2008 led to an $18 million increase in these expenses in the second quarter 2009.

Depreciation, depletion and amortization

Our depreciation, depletion and amortization expenses increased by $306 million, or by 43.5%, compared to the same period of 2008. The increase was a result of the Company's capital expenditures and the corresponding increase in depreciable assets, in particular due to putting in production the Yuzhnoe Khylchuyu oil field. Moreover, the decrease of our proved reserves in 2008 and increase of crude oil production resulted in an increase in depreciation of our oil and gas producing assets.

Interest expense

In the second quarter of 2009, interest expense amounted to $171 million, which is $79 million, or 85.9%, more than in the respective period of the previous year. This was a result of the termination of interest capitalization related to certain assets in Timan-Pechora after completion of their construction and a general increase in our indebtedness, including loans received from Sberbank and Gazprombank in the first quarter of 2009.

Equity share in income of affiliates

Compared to the second quarter of 2008, our share in income of affiliates decreased by $82 million, or by 53.6%, due to an overall decrease in profitability of our affiliates because of the adverse macroeconomic environment as a consequence of the economic downturn.

Taxes other than income taxes

	2nd quarter of	
	2009	**2008**
	(millions of US dollars)	
In Russia		
Mineral extraction taxes	1,136	3,322
Social security taxes and contributions	97	128
Property tax	103	92
Other taxes	8	41
Total in Russia	**1,344**	**3,583**
International		
Mineral extraction taxes	14	–
Social security taxes and contributions	15	21
Property tax	8	8
Other taxes	14	11
Total internationally	**51**	**40**
Total	**1,395**	**3,623**

In the second quarter of 2009, taxes other than income taxes decreased by 61.5%, or by $2,228 million, compared to the same period of 2008, mainly due to a decrease in mineral extraction taxes in Russia. This is explained by a decrease in the tax rate resulting from the low level of crude oil prices. Moreover, the change in the tax rate calculation effective from January 1, 2009, together with an effect from the application of the zero tax rate for crude oil produced in Northern Timan-Pechora led to more than $300 million reduction.

Excise and export tariffs

	2nd quarter of	
	2009	2008
	(millions of US dollars)	
In Russia		
Excise tax and sales taxes on refined products	184	271
Crude oil export tariffs	1,309	3,028
Refined products export tariffs	453	812
Total in Russia	**1,946**	**4,111**
International		
Excise tax and sales taxes on refined products	900	971
Crude oil export tariffs	18	–
Refined products export tariffs	24	109
Total internationally	**942**	**1,080**
Total	**2,888**	**5,191**

In spite of an increase in crude oil export volumes, export tariffs decreased by $2,145 million, or by 54.3%, compared to the same period of 2008, due to the decrease in tariff rates in Russia because of the crude oil prices decline. The decrease in excises in Russia was due to the ruble devaluation. Despite the changes in the Group structure, which resulted in $29 million of excise increase, our international excises decreased due to a decrease in volumes sold.

Income taxes

In the second quarter of 2009, our total income tax expense decreased by $715 million, or by 52.7%, compared to the same period of 2008, due to the decrease in income before income tax by $2,658 million, or by 47.9%.

In the second quarter of 2009, our effective income tax rate was 22.2%, compared to 24.5% in the second quarter of 2008, which is higher than the maximum statutory rate for the Russian Federation (20% in the second quarter of 2009 and 24% in the second quarter of 2008).

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

	2nd quarter of	
	2009	2008
	(millions of US dollars)	
Net income attributable to OAO LUKOIL	**2,324**	**4,130**
Add back:		
Income tax expense	643	1,358
Depreciation and amortization	1,009	703
Interest expense	171	92
Interest and dividend income	(27)	(49)
EBITDA	**4,120**	**6,234**

Liquidity and capital resources

	1st half of 2009	2008
	(millions of US dollars)	
Net cash provided by operating activities	3,140	6,991
Net cash used in investing activities	(4,909)	(6,351)
Net cash provided by financing activities	1,114	160

Operating activities

Our primary source of cash flow is funds generated from our operations. During the first half of 2009, cash generated by operating activities was $3,140 million, more than a two-fold decrease compared to the same period of 2008, mainly due to the decrease in sales revenues. Besides, in the first half of 2009, our operating cash inflows were affected by an increase of working capital by $2,117 million, compared to January 1, 2009. This was mainly caused by:

- a $1,572 million net increase in trade accounts receivable and payable
- an increase in inventory of $924 million, resulting mainly from increased hydrocarbons prices
- a $393 million net increase in other assets and liabilities

At the same time, the negative effect from the above mentioned factors was partly offset by an $772 million increase in tax accounts payable.

Investing activities

The decrease in cash used in investing activities resulted from a decrease in cash spent on capital expenditures. In the first half of 2009, our capital expenditures decreased by $2,039 million, or by 40.5%, compared to the same period of 2008 (for a detailed analysis of capital expenditures see a later section).

At the same time, in the first half of 2009, payments for acquisitions increased by 75.7%, compared to the same period of 2008. In the first half of 2009, we paid the remaining amount of $1,066 million for the acquisition of a 49% stake in the ISAB refinery complex. We paid $127 million for the remaining interests in TGK-8. Also, we made an advance payment of $500 million within the acquisition of 45% interest in the TRN refinery in the Netherlands. Other acquisitions refer to advances for downstream assets in Russia.

In the first half of 2008, we made a final payment of $157 million for the acquisition of upstream assets in Uzbekistan (SNG Holdings Ltd.), $64 million for the increase of our share in the share capital of our refinery in Nizhny Novgorod. We also paid $198 million as the cash part of the consideration of the TGK-8 acquisition. The other payments were related to planned acquisitions of marketing assets in Russia and outside of Russia.

Financing activities

In the first half of 2009, net movements of short-term and long-term debt generated an inflow of $1,138 million, compared to an outflow of $34 million in the first half of 2008.

In June 2009, we completed offering of three series of stock exchange bonds on MICEX, altogether worth 15 billion rubles. Coupon rate for each of the issues was set at 13.5%. The bonds will mature in 364 days.

In February 2009, we received short-term loans of $500 million and 17 billion rubles from Sberbank to finance our working capital. Also, in the first quarter of 2009, we received a long-term loan of €1,000 million from Gazprombank.

Analysis of capital expenditures

	1st half of		2nd quarter of	
	2009	2008	2009	2008
	(millions of US dollars)			
Capital expenditures*				
Exploration and production				
Russia	1,899	3,679	939	1,900
International	342	414	184	212
Total exploration and production	2,241	4,093	1,123	2,112
Refining, marketing and distribution				
Russia	343	550	189	321
International	264	339	115	212
Total refining, marketing and distribution	607	889	304	533
Chemicals				
Russia	6	10	3	5
International	55	35	29	13
Total chemicals	61	45	32	18
Other	131	48	115	–
Total capital expenditures	**3,040**	**5,075**	**1,574**	**2,663**
Acquisitions of subsidiaries and minority shareholding interest**				
Exploration and production				
Russia	197	–	117	–
International	–	257	–	100
Total exploration and production	197	257	117	100
Refining, marketing and distribution				
Russia	206	500	–	45
International	1,565	379	499	214
Total refining, marketing and distribution	1,771	879	499	259
Other	137	2,170***	117	2,168***
Less cash acquired	(9)	(144)	–	(136)
Total acquisitions	**2,096**	**3,162**	**733**	**2,391**

* Including non-cash transactions and prepayments.

** Including prepayments related to acquisitions of subsidiaries and minority shareholding interests and non-cash transactions.

*** Including $1,969 million of non-cash part of consideration for acquisition of TGK-8.

During the first half of 2009, our capital expenditures, including non-cash transactions, amounted to $3,040 million, which is 40.1% less than in the first half of 2008. The decrease was in compliance with our plan to reduce capital expenditures in 2009 because of the economic downturn. Capital expenditures in our exploration and production segment decreased by $1,852 million, or by 45.2%, compared to the same period of 2008. The exploration and production capital expenditures in new regions decreased by $647 million due to the finalization of some projects, namely the commencement of commercial production on the Yuzhnoye Khylchuyu oil field. In the traditional exploration and production region of Western Siberia and European Russia capital expenditures decreased by $586 million and $540 million, respectively. The decrease in the capital expenditures in our international exploration projects (excluding the Caspian region) amounted to $79 million and was primarily related to our projects in Kazakhstan and Saudi Arabia.

The table below shows our exploration and production capital expenditures in promising new production regions. In December 2009, we plan to begin production on the Yu. Korchagin field in the Caspian Sea. The maximum annual production from the field is expected to be 2.3 million tonnes of oil and gas condensate, and 1.2 billion cubic meters of gas.

	1st half of		2nd quarter of	
	2009	2008	2009	2008
	(millions of US dollars)		(millions of US dollars)	
Northern Timan-Pechora	233	894	89	347
Yamal	82	55	57	41
Caspian region*	208	221	113	121
Total	**523**	**1,170**	**259**	**509**

* Russian and international projects.