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, 2010, and for the six and three months ended June 30, 2010 and 2009, 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, %
	2010	2009		2010	2009	
Sales (millions of US dollars)	49,755	34,861	42.7	25,853	20,116	28.5
Net income attributable to OAO LUKOIL (millions of US dollars)	4,002	3,229	23.9	1,949	2,324	(16.1)
EBITDA (millions of US dollars)	7,433	6,534	13.8	3,704	4,120	(10.1)
Taxes other than income taxes, excise and export tariffs (millions of US dollars)	(13,689)	(8,000)	71.1	(7,031)	(4,283)	64.2
Basic and diluted earning per share of common stock attributable to OAO LUKOIL (US dollars)	4.72	3.81	23.9	2.30	2.74	(16.3)
Hydrocarbon production by the Group including our share in equity affiliates (thousands of BOE)	409,373	401,730	1.9	204,182	201,467	1.3
Crude oil production by the Group including our share in equity affiliates (thousands of tonnes)	48,140	48,633	(1.0)	24,085	24,506	(1.7)
Gas available for sale produced by the Group including our share in equity affiliates (millions of cubic meters)	9,242	7,356	25.6	4,521	3,546	27.5
Refined products produced by the Group including our share in equity affiliates (thousands of tonnes)	31,097	28,768	8.1	16,394	15,190	7.9

During the first half of 2010, our net income was $4,002 million, which is $773 million, or 23.9%, more than in the same period of 2009. At the same time, our net income for the second quarter of 2010 amounted to 1,949, which is $375 million, or 16.1%, lower than in the second quarter of 2009.

Positive dynamic of our half-year net income was mainly due to a sharp increase in hydrocarbon prices in the first half of 2010, compared to the respective period of 2009. At the same time our results were affected by increase in extraction taxes and export tariff rates, appreciation of the Russian ruble and increase in transportation expenses. The negative effect of the above mentioned factors had the most significant influence on our results in the second quarter of 2010, when our net income decreased, compared to the respective period of 2009.

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 37 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, 2010 amounted to 17.5 billion BOE and comprised of 13.7 billion BOE of crude oil and 22.9 trillion cubic feet of gas.

Our operations are divided into four main business segments:

- **Exploration and Production –** which includes our exploration, development and production operations relating to crude oil and 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.
- **Power generation** – which includes generation, transportation and sales of electricity, heat and related services.

Other businesses include banking, finance and other activities. Each of our four main segments is dependent on the other, with a portion of the revenues of one segment being a part of the costs of the other. In particular, our Refining, Marketing and Distribution segment purchases crude oil from our Exploration and Production segment. As a result of certain factors considered in the "Domestic crude oil and refined products prices" section on page 8, benchmarking crude oil market prices in Russia cannot be determined with certainty. Therefore, the prices set for inter-segment purchases of crude oil reflect a combination of market factors, primarily international crude oil market prices, transportation costs, regional market conditions, the cost of crude oil refining and other factors. Accordingly, an analysis of either of these segments on a stand-alone basis could give a misleading impression of those segments' underlying financial position and results of operations. For this reason, we do not analyze either of our main segments separately in the discussion that follows. However, we present the financial data for each in Note 19 "Segment information" to our interim consolidated financial statements.

Changes in the Group structure

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

In December 2009, the Group acquired the remaining 46.0% interest in its equity affiliate LUKARCO B.V. ("LUKARCO") for $1.6 billion, thereby increasing the ownership stake to 100%. LUKARCO is a holding company, which owns a 5.0% share in Tengizchevroil, a joint venture which develops the Tengiz and Korolevskoe fields in Kazakhstan, and a 12.5% share in Caspian Pipeline Consortium ("CPC"), which carries Kazakhstani and Russian oil to Novorossiysk marine terminal. Therefore the Group increased the ownership in Tengizchevroil from 2.7% to 5.0% and the ownership in CPC from 6.75% to 12.5%. The first installment in amount of $300 million was paid in December 2009. $800 million should be paid no later than December 2010 and the remaining amount – no later than December 2011.

In June 2009, a Group company entered into an agreement with Total to acquire a 45.0% interest in TRN refinery in the Netherlands ("TRN"). The transaction was finalized in September 2009 in the amount of approximately $700 million. The Group provides crude oil and market refined products in line with its equity stake in the refinery. The refinery has the flexibility to process Urals blend crude oil as well as significant volumes of straight-run fuel oil and vacuum gasoil, which allows to integrate the plant into the Group's crude oil supply and refined products marketing operations. This plant with a Nelson complexity index of 9.8 has an annual topping capacity of 7.9 million tonnes and an annual capacity of a hydro-cracking unit of approximately 3.4 million tonnes. This acquisition was made in accordance with the Group's plans to develop its refining capacity in Europe.

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 100% interests 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 made at the date of finalization, the second payment in amount of $150 million was made in April 2009, and the remaining amount was paid in October 2009. The Akpet group operated 689 petrol filling stations on the basis of dealer agreements and owned 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 ("ISAB") in Priolo, Italy. In December 2008, the Group completed the acquisition of a 49.0% 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 ISAB up to 100%. The agreement states that each partner is responsible for procuring crude oil and marketing refined products in line with its equity stake in the joint venture. ISAB has the flexibility to process Urals blend crude oil. ISAB includes three jetties and storage tanks totaling 3,700 thousand cubic meters and has an annual refining capacity of 16 million tonnes.

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 power generation business.

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 OOO LUKOIL-Western Siberia, OOO LUKOIL-Komi and OOO LUKOIL-Perm. Also we have a consolidated joint venture with ConocoPhillips, OOO 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, Iraq, 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	
	2010	**2009**	**2010**	**2009**
Daily production of hydrocarbons, including the Company's share in equity affiliates (thousand BOE per day), including:	2,262	2,220	2,243	2,214
- crude oil	1,962	1,981	1,951	1,985
- natural and petroleum gas(1)	300	239	292	229
Hydrocarbon extraction expenses (US dollar per BOE)	4.02	3.25	4.07	3.40
	(millions of US dollars)			
Hydrocarbon extraction expenses	1,584	1,267	800	665
- in Russia	1,491	1,179	753	616
- outside Russia	93	88	47	49
Exploration expenses	146	69	29	32
- in Russia	50	34	14	19
- outside Russia	96	35	15	13
Mineral extraction tax	3,757	2,070	1,991	1,150
- in Russia	3,723	2,047	1,973	1,136
- outside Russia	34	23	18	14

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

Crude oil production. In the first half of 2010, we decreased our daily crude oil production by 1.0%, compared to the same period of 2009. We produced (including the Company's share in equity affiliates) 355 million barrels, or 48.1 million tonnes.

The following table represents our crude oil production in the respective periods of 2010 and 2009 by major regions.

(thousands of tonnes)	**1st half of of 2010**	**Change to 2009**			**1st half of of 2009**
		Total, %	**Change in structure**	**Organic change**	
Western Siberia	25,434	(4.5)	–	(1,205)	26,639
Timan-Pechora	10,871	2.4	–	255	10,616
Ural region	6,106	3.8	–	226	5,880
Volga region	1,432	(1.0)	–	(14)	1,446
Other in Russia	1,021	(3.0)	–	(32)	1,053
Crude oil produced in Russia	44,864	(1.7)	–	(770)	45,634
Crude oil produced internationally	1,749	(1.4)	–	(25)	1,774
Total crude oil produced by consolidated subsidiaries	**46,613**	**(1.7)**	**–**	**(795)**	**47,408**
Our share in crude oil produced by equity affiliates:					
in Russia	164	9.3	–	14	150
outside Russia	1,363	26.8	287	1	1,075
Total crude oil produced	**48,140**	**(1.0)**	**287**	**(780)**	**48,633**

The main oil producing region of the Company is Western Siberia where we produced 54.6% of our crude oil in the first half of 2010 (56.2% in the first half of 2009). A significant impact on our production in Western Siberia was caused by natural decline rates as well as decrease in the drilling of new wells. The reduction in drilling footage was due to realization of the Company's strategy aiming at strengthening its financial position through focusing on high yield projects and increasing cash flows.

In line with our 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 3.7 million tonnes from this field in the first half of 2010 and 3.2 million tonnes in the first half of 2009. This oil field is developed by OOO Narianmarneftegaz, our joint venture with ConocoPhillips. In December 2009, we started production drilling on the Yu. Korchagin field in the Caspian Sea. In April 2010, we started commercial production at the field. We plan to produce about 340 thousand tonnes from the field in 2010, whilst the maximum annual production from this field is expected to be 2.5 million tonnes of oil and gas condensate, and 1.0 billion cubic meters of gas.

The structural growth of our share in equity affiliates' production outside of Russia is explained by the increase of our effective share in Tengizchevroil, a joint venture which develops the Tengiz and Korolevskoe fields in Kazakhstan, to 5.0% as a result of acquiring the remaining 46.0% interest in LUKARCO.

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

	1st half of			
	2010		2009	
	(thousand of barrels)	(thousand of tonnes)	(thousand of barrels)	(thousand of tonnes)
Crude oil purchases in Russia	381	52	491	67
Crude oil purchases internationally........	77,610	10,588	76,958	10,499
Total crude oil purchased....................	**77,991**	**10,640**	**77,449**	**10,566**

	2nd quarter of			
	2010		2009	
	(thousand of barrels)	(thousand of tonnes)	(thousand of barrels)	(thousand of tonnes)
Crude oil purchases in Russia	234	32	344	47
Crude oil purchases internationally........	43,394	5,920	42,895	5,852
Total crude oil purchased....................	**43,628**	**5,952**	**43,239**	**5,899**

Significant part of our crude oil purchases is used for processing at our and at third party refineries. In the first half of 2010, we purchased 5,385 thousand tonnes of crude for processing (including 2,109 thousand tonnes at ISAB and 1,103 thousand tonnes at TRN), compared to 5,152 thousand tonnes in the first half of 2009 (including 2,603 thousand tonnes at ISAB).

Gas production. In the first half of 2010, we produced 9,242 million cubic meters of gas available for sale (including our share in equity affiliates), an increase of 25.6%, compared to the first half of 2009.

Our major gas production field is the Nakhodkinskoe gas field, where we produced 4,110 million cubic meters of natural gas in the first half of 2010, compared to 2,951 million cubic meters in the same period of 2009. The 39.3% increase in gas production from this field resulted from the increase of purchases of our gas by OAO Gazprom ("Gazprom") starting from the second half of 2009.

Our international gas production did not change significantly. Production from the Khauzak gas field in Uzbekistan was 1,305 million cubic meters of natural gas, compared to 1,309 million cubic meters in the same period of 2009. In the first half of 2010, our share in production from the Shakh-Deniz field in Azerbaijan was 290 million cubic meters, compared to 299 million cubic meters in the first half of 2009.

Refining, marketing and trading

Refining. We own and operate four refineries located in European Russia and three refineries located outside of Russia – in Bulgaria, Ukraine and Romania. Moreover, we have a 49% stake in the ISAB refinery complex in Italy and a 45% interest in TRN refinery in the Netherlands.

Compared to the first half of 2009, production at our consolidated and affiliated refineries increased by 8.1%. Russian refineries increased their production by 1.7%. Production of our international refineries including our share of production at ISAB and TRN increased by 24.8%, despite lower production at our Bulgarian and Ukrainian refineries due to performed overhauls.

In the first half of 2010, our share of refined products produced at ISAB amounted to 3,020 thousand tonnes (3,008 thousand tonnes in the first half of 2009) and our share in production of TRN amounted to 2,426 thousand tonnes.

In Russia LUKOIL holds the leading position in production and sales of European standards motor fuel being ahead of the official terms of their obligatory implementation in the country. At our Russian refineries we produced 4,304 and 3,364 thousand tonnes of Euro 4 and Euro 5 diesel fuel, and 2,716 and 2,213 thousand tonnes of Euro 3 gasoline in the first halves of 2010 and 2009, respectively.

Along with our own production of refined products we can refine crude oil at third party refineries depending on market conditions and other factors. In 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 were used for supplying our local retail network and for wholesale export. In the first half of 2010, we did not process our crude oil at third party refineries.

The following table summarizes key figures for our refining activities.

	1st half of		2nd quarter of	
	2010	**2009**	**2010**	**2009**
	(millions of US dollars)			
Refining expenses at the Group refineries	515	435	252	233
- in Russia	381	309	189	166
- outside Russia	134	126	63	67
Refining expenses at ISAB and TRN	349	218	172	119
Refining expenses at third party refineries	2	110	–	50
- in Russia	1	92	–	40
- outside Russia	1	18	–	10
Capital expenditures	336	411	166	209
- in Russia	238	237	119	134
- outside Russia	98	174	47	75
	(thousand barrels per day)			
Refinery throughput at the Group refineries	1,085	1,100	1,131	1,127
- in Russia(1)	895	881	896	877
- outside Russia	190	219	235	250
Refinery throughput at ISAB and TRN(2) (3)	222	122	235	145
Refinery throughput at third party refineries	–	90	–	92
- in Russia	–	58	–	56
- outside Russia	–	32	–	36
Total refinery throughput	**1,307**	**1,312**	**1,366**	**1,364**
	(thousand of tonnes)			
Refined products produced at the Group refineries	25,651	25,760	13,489	13,390
- in Russia(1)	21,194	20,830	10,684	10,427
- outside Russia	4,457	4,930	2,805	2,963
Production of ISAB and TRN(2)	5,446	3,008	2,905	1,800
Refined products produced at third party refineries	4	1,972	–	993
- in Russia	–	1,243	–	579
- outside Russia	4	729	–	414
Total refined products produced	**31,101**	**30,740**	**16,394**	**16,183**

(1) Excluding mini refineries.
(2) Group’s share.
(3) Including refined products processed.

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

The Group retails its refined products in 26 countries through approximately 6 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	
	2010	**2009**	**2010**	**2009**
	(thousand of tonnes)			
Retail sales	6,685	6,728	3,469	3,528
Wholesale sales	44,324	42,748	23,786	22,484
Total refined products sales	**51,009**	**49,476**	**27,255**	**26,012**
Refined products purchased in Russia	855	217	563	131
Refined products purchased internationally	23,015	20,383	11,784	10,696
Total refined products purchased	**23,870**	**20,600**	**12,347**	**10,827**

Exports of crude oil and refined products from Russia. In the first half of 2010, our export of crude oil from Russia was 6.5% less than in the same period of 2009, and we exported 45.5% of our total domestic crude oil production (47.8% in the first half of 2009).

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

	1st half of			
	2010		**2009**	
	(thousand of barrels)	(thousand of tonnes)	(thousand of barrels)	(thousand of tonnes)
Exports of crude oil using Transneft export routes	116,650	15,914	128,781	17,569
Exports of crude oil bypassing Transneft	32,919	4,491	31,262	4,265
Total crude oil exports	**149,569**	**20,405**	**160,043**	**21,834**

	2nd quarter of			
	2010		**2009**	
	(thousand of barrels)	(thousand of tonnes)	(thousand of barrels)	(thousand of tonnes)
Exports of crude oil using Transneft export routes	56,757	7,743	63,493	8,662
Exports of crude oil bypassing Transneft	16,749	2,285	16,873	2,302
Total crude oil exports	**73,506**	**10,028**	**80,366**	**10,964**

The overall decrease of our export from Russia was a result of decreased crude oil production and termination of processing operations in Belarus and respective decrease of export to CIS. At the same time, export to far-abroad increased by 0.8 million tonnes, compared to the first half of 2009.

In the first half of 2010, the crude oil exported through our own export infrastructure was 4,491 thousand tonnes, or 5.9% more than in the first half of 2009, due to increased export of crude oil produced from the Yuzhnoye Khylchuyu oil field through our export terminal in Varandey (3.7 million tonnes in the first half of 2010, compared to 3.2 million tonnes in the first half of 2009).

In the first half of 2010, we exported from Russia 12.9 million tonnes of refined products, a decrease of 8.2%, compared to the same period of 2009. This is explained by a decrease in export sales to CIS. We export from Russia primarily diesel fuel, fuel oil and gasoil. These products account for approximately 91.5% of our refined products export volumes.

In the first half of 2010, our revenue from export of crude oil and refined products from Russia both to the Group companies and third parties amounted to $10,718 million and $6,922 million, respectively ($7,686 million for crude oil and $4,827 million for refined products in the first half of 2009).

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 2010, the Brent crude oil price fluctuated between $70 and $86 per barrel and reached its peak of $86.79 in the end of April, 2010.

In 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 by the world economic downturn. During 2009, crude oil prices were in an upward trend and in the second half of the year crude oil price stabilized around $70 per barrel.

Substantially all crude oil we export is Urals blend. The following table shows the average crude oil and refined product prices products in the respective periods of 2010 and 2009.

	1st half of		Change, %	2nd quarter of		Change, %
	2010	2009		2010	2009	
	(in US dollars per barrel, except for figures in percent)					
Brent crude	77.29	51.68	49.6	78.24	59.13	32.3
Urals crude (CIF Mediterranean) (1)	76.12	50.99	49.3	76.86	58.48	31.4
Urals crude (CIF Rotterdam) (1)	76.10	50.94	49.4	76.92	58.46	31.6
	(in US dollars per metric tonne. except for figures in percent)					
Fuel oil 3.5% (FOB Rotterdam)	402.84	274.63	46.7	434.28	322.29	34.7
Diesel fuel 10 ppm (FOB Rotterdam)	691.46	471.25	46.7	684.45	506.37	35.2
High-octane gasoline (FOB Rotterdam)	671.64	496.84	35.2	732.82	586.56	24.9

Source: Platts.

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

Domestic crude oil and refined products prices

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

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

The table below represents average domestic wholesale prices of refined products in the respective periods of 2010 and 2009.

	1st half of		Change, %	2nd quarter of		Change, %
	2010	2009		2010	2009	
	(in US dollars per metric tonne, except for figures in percent)					
Fuel oil	223.60	131.34	70.2	239.12	152.14	57.2
Diesel fuel	546.91	430.65	27.0	530.54	427.26	24.2
High-octane gasoline (Regular)	692.65	459.59	50.7	720.62	528.76	36.3
High-octane gasoline (Premium)	710.26	512.77	38.5	736.97	554.63	32.9

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 devaluation of the ruble against the US dollar generally causes our costs to decrease in US dollar terms, and vice versa. The devaluation of the purchasing power of the US dollar in the Russian Federation calculated on the basis of the ruble-dollar exchange rates and the level of inflation in Russia was 17.2% in the first half of 2010, compared to the same period of 2009.

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

	1st half of		**2nd quarter of**	
	2010	**2009**	**2010**	**2009**
Ruble inflation (CPI), %	4.4	7.5	1.2	1.9
Change of the ruble-dollar exchange rate, %	(3.2)	(6.5)	(6.2)	8.0
Average exchange rate for the period (ruble to US dollar)	30.07	33.07	30.24	32.21
Exchange rate at the end of the period (ruble to US dollar)	31.20	31.29	–	–

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, %**
		2010[1]	**2009[1]**	
Export tariffs on crude oil	$/tonne	272.66	122.90	121.9
Export tariffs on refined products				
Light distillates (gasoline), middle distillates (jet fuel), diesel fuel and gasoils	$/tonne	196.03	95.11	106.1
Liquid fuels (fuel oil)	$/tonne	105.60	51.23	106.1
Excise on refined products				
Straight-run gasoline	RUR/tonne	4,290.00	3,900.00	10.0
High-octane gasoline	RUR/tonne	3,992.00	3,629.00	10.0
Low-octane gasoline	RUR/tonne	2,923.00	2,657.00	10.0
Diesel fuel	RUR/tonne	1,188.00	1,080.00	10.0
Motor oils	RUR/tonne	3,246.10	2,951.00	10.0
Mineral extraction tax				
Crude oil	RUR/tonne	2,928.87	1,873.57	56.3
Natural gas	RUR/1,000 m^3	147.00	147.00	–

(1) Average values.

		2nd quarter of		**Change, %**
		2010[1]	**2009[1]**	
Export tariffs on crude oil	$/tonne	281.69	133.55	110.9
Export tariffs on refined products				
Light distillates (gasoline), middle distillates (jet fuel), diesel fuel and gasoils	$/tonne	202.12	102.26	97.7
Liquid fuels (fuel oil)	$/tonne	108.88	55.08	97.7
Excise on refined products				
Straight-run gasoline	RUR/tonne	4,290.00	3,900.00	10.0
High-octane gasoline	RUR/tonne	3,992.00	3,629.00	10.0
Low-octane gasoline	RUR/tonne	2,923.00	2,657.00	10.0
Diesel fuel	RUR/tonne	1,188.00	1,080.00	10.0
Motor oils	RUR/tonne	3,246.10	2,951.00	10.0
Mineral extraction tax				
Crude oil	RUR/tonne	2,977.27	2,200.62	35.3
Natural gas	RUR/1,000 m^3	147.00	147.00	–

(1) Average values.

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

		1st half of		Change,
		2010(1)	**2009**(1)	**%**
Excise on refined products				
Straight-run gasoline	$/tonne	142.68	117.94	21.0
High-octane gasoline	$/tonne	132.77	109.74	21.0
Low-octane gasoline	$/tonne	97.21	80.35	21.0
Diesel fuel	$/tonne	39.51	32.66	21.0
Motor oils	$/tonne	107.96	89.24	21.0
Mineral extraction tax				
Crude oil	$/tonne	97.41	56.66	71.9
Natural gas	$/1,000 m^3	4.89	4.45	9.8

(1) Average values.

		2nd quarter of		Change,
		2010(1)	**2009**(1)	**%**
Excise on refined products				
Straight-run gasoline	$/tonne	141.85	121.06	17.2
High-octane gasoline	$/tonne	132.00	112.65	17.2
Low-octane gasoline	$/tonne	96.65	82.48	17.2
Diesel fuel	$/tonne	39.28	33.53	17.2
Motor oils	$/tonne	107.33	91.60	17.2
Mineral extraction tax				
Crude oil	$/tonne	98.44	68.31	44.1
Natural gas	$/1,000 m^3	4.86	4.56	6.5

(1) Average values.

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

Crude oil extraction tax rate. The base rate is 419 rubles per metric tonne extracted and it is adjusted depending on the international market price of Urals blend and the ruble exchange rate. The tax rate is zero when the average Urals blend international market price for a tax period was less than or equal to $15.00 per barrel. Each $1.00 per barrel increase in the international Urals blend price over the threshold ($15.00 per barrel) 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).

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, Caspian sea and the Nenetsky Autonomous District, 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.

The Group undertakes crude oil production from certain oilfields in Caspian Sea and the Nenetsky Autonomous District and can benefit from the application of zero tax rate.

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.

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.

Starting from the end of 2009, the Russian Government set a zero export duty rate for crude oil produced at certain fields in Eastern Siberia. This benefit does not apply to crude oil production at our new oilfields in Caspian Sea and the Nenetsky Autonomous District.

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. In 2009, crude oil exported from Russia to Belarus was subject to export duties calculated with the application of a coefficient 0.356 to the regular export duty rate set by the Russian Government.

In 2010, under the agreement between the Russian Federation and Belarus, crude oil exported from Russia to Belarus up to total amount of 6.3 million tonnes will not be subject to export duty. Volumes of crude oil export above this limit are taxed at a regular rate.

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. Starting from January 1, 2009, the Federal income tax rate is 2.0% and the regional income tax rate varies between 13.5% and 18.0%. The Group’s foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

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 producing 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 (“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. Through the Svetly terminal we export 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 that 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, 2010, compared to six months ended June 30, 2009

The table below represents our consolidated statements of income for the periods indicated.

	1st half of	
	2010	**2009**
	(millions of US dollars)	
Revenues		
Sales (including excise and export tariffs)	49,755	34,861
Costs and other deductions		
Operating expenses	(3,802)	(3,108)
Cost of purchased crude oil, gas and products	(20,275)	(13,272)
Transportation expenses	(2,780)	(2,356)
Selling, general and administrative expenses	(1,655)	(1,520)
Depreciation, depletion and amortization	(2,060)	(2,003)
Taxes other than income taxes	(4,349)	(2,593)
Excise and export tariffs	(9,340)	(5,407)
Exploration expense	(146)	(69)
Gain on disposals and impairments of assets	10	12
Income from operating activities	**5,358**	**4,545**
Interest expense	(373)	(334)
Interest and dividend income	98	65
Equity share in income of affiliates	236	182
Currency translation loss	(42)	(124)
Other non-operating (expense) income	(75)	61
Income before income taxes	**5,202**	**4,395**
Current income taxes	(1,140)	(837)
Deferred income taxes	44	(196)
Total income tax expense	**(1,096)**	**(1,033)**
Net income	**4,106**	**3,362**
Less: net loss attributable to noncontrolling interests	(104)	(133)
Net income attributable to OAO LUKOIL	**4,002**	**3,229**
Basic and diluted earning per share of common stock attributable to OAO LUKOIL (in US dollars)	4.72	3.81

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

Sales revenues

Sales breakdown	1st half of 2010	1st half of 2009
	(millions of US dollars)	
Crude oil		
Export and sales on international markets other than CIS	12,175	8,275
Export and sales to CIS	513	781
Domestic sales	481	43
	13,169	**9,099**
Refined products		
Export and sales on international markets		
Wholesale	23,950	15,908
Retail	4,464	3,990
Domestic sales		
Wholesale	2,474	1,645
Retail	2,499	1,755
	33,387	**23,298**
Petrochemicals		
Export and sales on international markets	270	274
Domestic sales	350	176
	620	**450**
Gas and gas products		
Export and sales on international markets	645	494
Domestic sales	386	219
	1,031	**713**
Domestic sales of energy and related services	**730**	**525**
Other		
Sales on international markets	483	510
Domestic sales	335	266
	818	**776**
Total sales	**49,755**	**34,861**

Sales volumes	1st half of 2010	1st half of 2009
Crude oil	(thousands of barrels)	
Export and sales on international markets other than CIS	162,792	164,221
Export and sales to CIS	12,073	20,165
Domestic sales	14,279	1,231
	189,144	**185,617**
Crude oil	(thousands of tonnes)	
Export and sales on international markets other than CIS	22,209	22,404
Export and sales to CIS	1,647	2,751
Domestic sales	1,948	168
	25,804	**25,323**
Refined products	(thousands of tonnes)	
Export and sales on international markets		
Wholesale	39,195	37,888
Retail	3,420	3,924
Domestic sales		
Wholesale	5,129	4,860
Retail	3,265	2,804
	51,009	**49,476**
Total sales volume of crude oil and refined products	**76,813**	**74,799**

Realized average sales prices

	1st half of			
	2010		2009	
	($/barrel)	($/tonne)	($/barrel)	($/tonne)
Average realized price international				
Oil (excluding CIS)	74.79	548.22	50.39	369.34
Oil (CIS)	42.47	311.28	38.74	283.93
Refined products				
Wholesale		611.03		419.87
Retail		1,305.13		1,016.64
Average realized price within Russia				
Oil	33.69	246.95	34.84	255.41
Refined products				
Wholesale		482.54		338.46
Retail		765.05		625.79

During the first half of 2010, our revenues increased by $14,894 million, or by 42.7%, compared to the same period of 2009. Our revenues from crude oil sales increased by $4,070 million, or by 44.7%. Our revenues from sales of refined products increased by $10,089 million, or by 43.3%. The increase in sales revenue was a result of a sharp increase in hydrocarbon prices, compared to the first half of 2009. Moreover, the appreciation of the ruble against the US dollar also increased the US dollar value of our sales revenue denominated in Russian rubles.

Sales of crude oil

Our total crude oil sales revenues increased by 44.7%, due to growth of crude oil prices and increased sales volumes.

Cease in crude oil refining at third party refineries in Russia and Belarus released crude oil volumes for sales on domestic market. This compensated a slight decline in our crude oil production in the first half of 2010. As a result, our crude oil sales raised by 1.9% in terms of volumes.

Sales of refined products

In the first half of 2010, our revenue from the wholesale of refined products outside of Russia increased by $8,042 million, or by 50.6%, compared to the same period of 2009, due to increased average realized price by 45.5%. Despite the decrease in output at our refineries in Bulgaria and Ukraine due to overhaul, commencement of crude oil refining at TRN and expansion of trading activities led to an increase in wholesales volumes by 3.4%.

In the first half of 2010, our revenue from international retail sales increased by $474 million, or by 11.9%, compared to the first half of 2009, mainly due to an increase in average retail prices by 28.4%. Decrease of sales volumes by 12.8% primarily reflects restructuring of our retail network in the USA.

In the first half of 2010, our revenue from the wholesale of refined products on the domestic market increased by $829 million, or by 50.4%, compared to the first half of 2009, due to an increase in the average realized price by 42.6%. Sales volumes increased by 269 thousand tonnes, or by 5.5%.

In the first half of 2010, our revenue from retail sales in Russia increased by $744 million, or by 42.4%, compared to the first half of 2009, due to an increase in prices and volumes. In the first half of 2010, our retail sales revenue was 50.2% of total refined products sales in Russia (in the first half of 2009 – 51.6%).

Sales of petrochemical products

In the first half of 2010, our revenue from sales of petrochemical products increased by $170 million, or by 37.8%, compared to the first half of 2009. Outside of Russia increased realized prices compensated decrease of sales volumes. The growth of domestic sales revenue was a result of increased sales volumes and realized prices, as well as the real ruble appreciation against the US dollar.

Sales of gas and gas products

In the first half of 2010, sales of gas and gas refined products increased by $318 million, or by 44.6%, compared to the first half of 2009. Gas products sales revenue increased by $258 million, or by 65.5%, primarily as a result of an increase in sales prices and volumes.

Natural gas sales revenue amounted to $354 million – an increase of 14.9%, compared to the same period of 2009. Our domestic natural gas sales revenue significantly increased. At the same time, our natural gas sales revenue outside of Russia was lower than in the respective period of 2009 as a result of a decrease of realized selling prices.

The major purchaser of our natural gas produced in the Russian Federation is Gazprom. In the first half of 2010, we sold 4,110 million cubic meters of natural gas to Gazprom (2,951 million cubic meters in the first half of 2009). The average realized price increased by 10.0% to $35.2 per 1,000 cubic meters as a result of the ruble appreciation.

Domestic sales of energy and related services

We have been developing our energy business since the acquisition of TGK-8 in 2008. As a result, in the first half of 2010, our revenue from sales of electricity, heat and related services increased by $205 million, or by 39.0%. The ruble appreciation also contributed to the increase of this revenue.

Sales of other products

Other sales include non-petroleum sales through our retail network, and revenue of our production and marketing companies from sales of other services and goods not related to our primary activities (such as transportation, etc.).

In the first half of 2010, our other sales increased by $42 million, or by 5.4%. A decrease of transportation services provided abroad was compensated by higher non-petroleum retail revenue. During the first half of 2010, sales of goods and other products from our retail stations amounted to $297 million, an increase of $37 million from the level of the first half of 2009, mainly due to increase of such sales in Russia and Eastern Europe.

Operating expenses

Operating expenses include the following:

	1st half of	
	2010	**2009**
	(millions of US dollars)	
Hydrocarbon extraction expenses	1,584	1,267
Own refining expenses	515	435
Refining expenses at third party and affiliated refineries	351	328
Expenses for crude oil transportation to refineries	541	465
Power generation and distribution expenses	293	200
Petrochemical expenses	80	54
Other operating expenses	670	651
	4,034	**3,400**
Change in operating expenses in crude oil and refined products inventory originating within the Group(1)	(232)	(292)
Total operating expenses	**3,802**	**3,108**

(1) 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 2009, our operating expenses increased by $694 million, or by 22.3%, which is mainly explained by general increase in operating expenses in Russia due to the real ruble appreciation against the US dollar by 17.2%, increase in hydrocarbon extraction expenses, expenses for crude oil transportation to refineries, refining expenses and energy generation and distribution expenses.

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 2010, our extraction expenses increased by $317 million, or by 25.0%, compared to the first half of 2009. This was mainly a result of the real ruble appreciation against the US dollar, increased expenses for power supply, artificial stimulation of reservoirs, labor costs and an increase in other expenses. Our average hydrocarbon extraction cost increased from $3.25 to $4.02 per BOE, or by 23.7%, compared to the first half of 2009.

Own refining expenses

In the first half of 2010, our own refining expenses increased by $80 million, or by 18.4%, compared to the first half of 2009.

Refining expenses at our domestic refineries increased by 23.3%, or by $72 million, mainly as a result of the real ruble appreciation against the US dollar, increase in power supply costs and higher consumption of additives.

Refining expenses at our international refineries increased by 6.3%, or by $8 million, mainly as a result of increased power supply costs.

Refining expenses at third party and affiliated refineries

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

We did not process crude oil on third party refineries in the first half of 2010. Nevertheless, as a result of commencement of crude oil refining at TRN we increased our throughput at third party and affiliated refineries by 4.5%, compared to the first half of 2009 (including refined products processed). Thus, in the first half of 2010, refining expenses at third party and affiliated refineries increased by 7.0%, compared to the first half of 2009. Processing cost at our refineries in Western Europe is higher than at the refineries in Russia or Belarus.

Petrochemical expenses

In the first half of 2010, operating expenses of our petrochemical plants increased by $26 million, or by 48.1%, compared to the first half of 2009. Expenses in Russia were impacted by increased production and ruble appreciation to the US dollar. Despite petrochemical capacity downtime in Bulgaria and Ukraine, our international petrochemical operating expenses decreased insignificantly due to sizeable share of fixed costs.

Expenses for crude oil transportation to refineries

Expenses for crude oil transportation to refineries increased in the first half of 2010 by $76 million, or by 16.3%, compared to the first half of 2009, due to an increase in transportation tariff rates and as a result of the real ruble appreciation in Russia (see Transportation expenses below). Moreover, in the first half of 2010, we commenced supplying our crude oil to the TRN refinery.

Power generation and distribution expenses

Power generation and distribution expenses increased by $93 million, or by 46.5%, reflecting expansion of our power generating business and as a result of the real ruble appreciation in Russia.

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 transportation services, other goods, etc., operating expenses of our gas processing plants, costs of other services provided and goods sold by our marketing companies, and of non-core businesses of the Group.

In the first half of 2010, our other operating expenses increased by $19 million, or by 2.9%, compared to the first half of 2009.

Cost of purchased crude oil, gas and products

Cost of purchased crude oil, gas and products increased by $7,003 million in the first half of 2010, or by 52.8%, compared to the same period of 2009, due to an increase in crude oil and refined products prices and increase in volumes of refined products 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 2010, we recognized a $247 million gain from hedging, compared to a $542 million expense in the first half of 2009.

Cost of purchased crude oil, gas and products includes purchases of natural gas and fuel oil to supply our power generation segment entities.

Transportation expenses

In the first half of 2010, our transportation expenses increased by $424 million, or by 18.0%, compared to the first half of 2009. This was primarily due to increase of ruble denominated pipeline and railway transportation tariffs in Russia, which was emphasized by the ruble appreciation.

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 2010, compared to the first half of 2009, as follows: crude oil pipeline tariffs increased by 26.8%, railway tariffs for refined products transportation increased by 31.0%, crude oil freight rates decreased by 18.1% and refined products freight rates increased by 7.0%, 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 2010, our selling, general and administrative expenses increased by $135 million, or by 8.9%, compared to the first half of 2009, reflecting the effect of ruble appreciation on selling, general and administrative expenses in Russia and increase in our selling expenses.

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 $57 million, or by 2.8%, compared to the first half of 2009.

Exploration expenses

During the first half of 2010, exploration expense increased by $77 million, or 111.6%, compared to the first half of 2009. Dry hole costs increased by $71 million to $94 million.

In the first half of 2010, we charged to expense the cost of an exploratory well in Cote d'Ivoire totaling $66 million. Dry hole costs in Russia amounted to $28 million.

Interest expense

In the first half of 2010, interest expense increased up to $373 million, which is 11.7% more than in the respective period of the previous year. This increase mainly relates to discounting of the VAT recoverable of our refinery in Ukraine as a result of the restructuring of this receivable.

Equity share in income of affiliates

The Group has investments in equity method affiliates and corporate joint ventures. These companies are primarily engaged in crude oil exploration, production, marketing and distribution operations in the Russian Federation, crude oil production and marketing in Kazakhstan and refining operations in Europe. Our largest affiliates are Turgai Petroleum, an exploration and production company operating in Kazakhstan, and ISAB and TRN refineries. Moreover at the end of 2009, we increased our share in LUKARCO from 54% to 100%, thus increasing our stake in Tengizchevroil, an exploration and production joint-venture in Kazakhstan, to 5%.

Compared to the first half of 2009, our share in income of affiliates increased by $54 million, or by 29.7%. This was primarily due to share in income of our exploration and production subsidiaries.

Taxes other than income taxes

	1st half of 2010	1st half of 2009
	(millions of US dollars)	
In Russia		
Mineral extraction taxes	3,723	2,047
Social security taxes and contributions	203	201
Property tax	238	197
Other taxes	58	38
Total in Russia	**4,222**	**2,483**
International		
Mineral extraction taxes	34	23
Social security taxes and contributions	48	31
Property tax	18	15
Other taxes	27	41
Total internationally	**127**	**110**
Total	**4,349**	**2,593**

In the first half of 2010, taxes other than income taxes increased by 67.7%, or by $1,756 million, compared to the first half of 2009, mainly due to an increase in mineral extraction taxes in Russia. This is explained by an increase in the tax rate following the increase of international crude oil prices. Application of zero tax rate for crude oil produced in Timan-Pechora and decreased rate for depleted oilfields led to approximately $679 million tax reduction (in the first half of 2009 – about $600 million).

Excise and export tariffs

	1st half of 2010	1st half of 2009
	(millions of US dollars)	
In Russia		
Excise tax on refined products	435	352
Crude oil export tariffs	5,363	2,370
Refined products export tariffs	1,752	927
Total in Russia	**7,550**	**3,649**
International		
Excise tax and sales taxes on refined products	1,732	1,680
Crude oil export tariffs	54	40
Refined products export tariffs	4	38
Total internationally	**1,790**	**1,758**
Total	**9,340**	**5,407**

In spite of a decrease in crude oil and refined products export volumes, export tariffs increased by $3,798 million, or by 112.5%, compared to the first half of 2009, due to an increase in tariff rates in Russia as a result of international crude oil prices growth. The increase in excises in Russia resulted from the ruble appreciation and increase of excise rate.

The Russian Government set a zero export rate for crude oil produced at certain fields in Eastern Siberia starting from the end of 2009. This benefit does not apply to crude oil production at our new oilfields in Caspian Sea and the Nenetsky Autonomous District.

Income taxes

In the first half of 2010, our total income tax expense increased by $63 million, or by 6.1%, compared to the first half of 2009, due to the increase in income before income tax by $807 million, or by 18.4%.

In the first half of 2010, our effective income tax rate was 21.1%, compared to 23.5% in the first half of 2009, which was higher than the maximum statutory rate for the Russian Federation (20%). The high level of the effective income tax rate in the first half of 2009 was attributable to the effect of currency translation gains in our Russian subsidiaries during the first quarter of 2009.

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

	1st half of	
	2010	**2009**
	(millions of US dollars)	
Net income attributable to OAO LUKOIL	**4,002**	**3,229**
Add back:		
Income tax expense	1,096	1,033
Depreciation and amortization	2,060	2,003
Interest expense	373	334
Interest and dividend income	(98)	(65)
EBITDA	**7,433**	**6,534**

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, 2010, compared to three months ended June 30, 2009

The table below represents our consolidated statements of income for the periods indicated.

	2nd quarter of 2010	2nd quarter of 2009
	(millions of US dollars)	
Revenues		
Sales (including excise and export tariffs)	25,853	20,116
Costs and other deductions		
Operating expenses	(2,032)	(1,876)
Cost of purchased crude oil, gas and products	(10,755)	(7,910)
Transportation expenses	(1,429)	(1,187)
Selling, general and administrative expenses	(853)	(791)
Depreciation, depletion and amortization	(1,030)	(1,009)
Taxes other than income taxes	(2,269)	(1,395)
Excise and export tariffs	(4,762)	(2,888)
Exploration expense	(29)	(32)
Gain (loss) on disposals and impairments of assets	13	(15)
Income from operating activities	**2,707**	**3,013**
Interest expense	(196)	(171)
Interest and dividend income	45	27
Equity share in income of affiliates	129	71
Currency translation loss	(2)	(109)
Other non-operating (expense) income	(46)	62
Income before income taxes	**2,637**	**2,893**
Current income taxes	(584)	(537)
Deferred income taxes	10	(106)
Total income tax expense	**(574)**	**(643)**
Net income	**2,063**	**2,250**
Less: net (income) loss attributable to noncontrolling interests	(114)	74
Net income attributable to OAO LUKOIL	**1,949**	**2,324**
Basic and diluted earning per share of common stock attributable to OAO LUKOIL (in US dollars)	2.30	2.74

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

Sales revenues

Sales breakdown	2nd quarter of 2010	2nd quarter of 2009
	(millions of US dollars)	
Crude oil		
Export and sales on international markets other than CIS	5,882	4,836
Export and sales to CIS	227	457
Domestic sales	295	38
	6,404	**5,331**
Refined products		
Export and sales on international markets		
Wholesale	12,915	9,504
Retail	2,359	2,194
Domestic sales		
Wholesale	1,314	828
Retail	1,313	955
	17,901	**13,481**
Petrochemicals		
Export and sales on international markets	138	146
Domestic sales	181	100
	319	**246**
Gas and gas products		
Export and sales on international markets	354	308
Domestic sales	195	117
	549	**425**
Domestic sales of energy and related services	**282**	**221**
Other		
Sales on international markets	245	265
Domestic sales	153	147
	398	**412**
Total sales	**25,853**	**20,116**

Sales volumes	2nd quarter of 2010	2nd quarter of 2009
Crude oil	(thousands of barrels)	
Export and sales on international markets other than CIS	78,138	84,830
Export and sales to CIS	5,535	10,101
Domestic sales	8,906	931
	92,579	**95,862**
Crude oil	(thousands of tonnes)	
Export and sales on international markets other than CIS	10,660	11,573
Export and sales to CIS	755	1,378
Domestic sales	1,215	127
	12,630	**13,078**
Refined products	(thousands of tonnes)	
Export and sales on international markets		
Wholesale	21,060	20,145
Retail	1,797	2,037
Domestic sales		
Wholesale	2,726	2,339
Retail	1,672	1,492
	27,255	**26,013**
Total sales volume of crude oil and refined products	**39,885**	**39,091**

Realized average sales prices

	2nd quarter of			
	2010		2009	
	($/barrel)	($/tonne)	($/barrel)	($/tonne)
Average realized price international				
Oil (excluding CIS)	75.28	551.80	57.01	417.89
Oil (CIS)	41.01	300.58	45.22	331.45
Refined products				
Wholesale		613.18		471.80
Retail		1,312.70		1,076.97
Average realized price within Russia				
Oil	33.17	243.12	40.05	293.58
Refined products				
Wholesale		482.29		354.11
Retail		784.71		639.50

During the second quarter of 2010, our revenues increased by $5,737 million, or by 28.5%, compared to the same period of 2009. Our revenues from crude oil sales increased by $1,073 million, or by 20.1%. Our revenues from sales of refined products increased by $4,420 million, or by 32.8%. The increase in sales revenue was a result of a sharp increase in hydrocarbon prices, compared to the second quarter of 2009. Moreover, the appreciation of the ruble against the US dollar also increased the US dollar value of our sales revenue denominated in Russian rubles.

Sales of crude oil

Our total crude oil sales revenues increased by 20.1% due to growth of crude oil prices. At the same time, sales volumes were 3.4% lower, compared to the respective period of 2009, primarily due to decreased crude oil production.

Sales of refined products

In the second quarter of 2010, our revenue from the wholesale of refined products outside of Russia increased by $3,411 million, or by 35.9%, compared to the same period of 2009, due to increased average realized price by 30.0%. Despite the decrease in output at our refineries in Bulgaria and Ukraine due to overhaul, commencement of crude oil refining at TRN and expansion of trading activities led to an increase in wholesales volumes by 4.5%.

In the second quarter of 2010, our revenue from international retail sales increased by $165 million, or by 7.5%, compared to the second quarter of 2009, mainly due to an increase in average retail prices by 21.9%. Decrease of sales volumes by 11.8% reflects restructuring of our retail network in the USA.

In the second quarter of 2010, our revenue from the wholesale of refined products on the domestic market increased by $486 million, or by 58.7%, compared to the second quarter of 2009, due to an increase in the average realized price by 36.2% and in sales volumes by 387 thousand tonnes, or by 16.5%.

In the second quarter of 2010, our revenue from retail sales in Russia increased by $358 million, or by 37.5%, compared to the second quarter of 2009, due to an increase in prices and volumes. In the second quarter of 2010, our retail sales revenue was 50.0% of total refined products sales in Russia (in the second quarter of 2009 – 53.6%).

Sales of petrochemical products

In the second quarter of 2010, our revenue from sales of petrochemical products increased by $73 million, or by 29.7%, compared to the second quarter of 2009. This resulted from an increase in prices and volumes.

Sales of gas and gas products

In the second quarter of 2010, sales of gas and gas refined products increased by $124 million, or by 29.2%, compared to the second quarter of 2009. Gas products sales revenue increased by $120 million, or by 52.2%, as a result of increase in sales volumes and prices. Natural gas sales revenue amounted to $186 million – a decrease of 1.1%, compared to the same period of 2009. Our domestic natural gas sales revenue significantly increased, but sales revenue outside of Russia was lower than in the respective period of 2009 mainly due to decrease of gas realized selling prices.

In the second quarter of 2010, we sold 2,011 million cubic meters of natural gas to Gazprom (1,385 million cubic meters in the second quarter of 2009). The average realized price increased by 6.2% to $35.0 per 1,000 cubic meters as a result of the ruble appreciation.

Domestic sales of energy and related services

In the second quarter of 2010, our revenue from sales of electricity, heat and related services increased by $61 million, or by 27.6%, as a result of expansion of our power generation and distribution segment. The ruble appreciation also contributed to an increase of this revenue.

Sales of other products

In the second quarter of 2010, our other sales decreased by $14 million, or by 3.4%, resulting from decrease of transportation services provided.

During the second quarter of 2010, sales of goods and other products from our retail stations amounted to $149 million, which was roundly equal to the level of the second quarter of 2009.

Operating expenses

Operating expenses include the following:

	2nd quarter of 2010	2009
	(millions of US dollars)	
Hydrocarbon extraction expenses	800	665
Own refining expenses	252	233
Refining expenses at third party and affiliated refineries	172	169
Expenses for crude oil transportation to refineries	275	256
Power generation and distribution expenses	145	103
Petrochemical expenses	40	25
Other operating expenses	362	372
	2,046	**1,823**
Change in operating expenses in crude oil and refined products inventory originating within the Group[1]	(14)	53
Total operating expenses	**2,032**	**1,876**

[1] 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 second quarter of 2009, our operating expenses increased by $156 million, or by 8.3%, as a result of general increase in operating expenses in Russia due to the ruble appreciation against the US dollar, increase in hydrocarbon extraction expenses and energy generation and distribution expenses.

Hydrocarbon extraction expenses

In the second quarter of 2010, our extraction expenses increased by $135 million, or by 20.3%, compared to the second quarter of 2009. The increase was mainly a result of the real ruble appreciation against the US dollar, increased expenses for power supply, artificial stimulation of reservoirs, labor costs, and an increase in other expenses. Our average hydrocarbon extraction cost increased from $3.40 to $4.07 per BOE, or by 19.7%, compared to the second quarter of 2009.

Own refining expenses

In the second quarter of 2010, our own refining expenses increased by $19 million, or by 8.2%, compared to the second quarter of 2009.

Refining expenses at our domestic refineries increased by 13.9%, or by $23 million, mainly as a result of the real ruble appreciation against the US dollar, increased expenses for power supply and higher consumption of additives.

Refining expenses at our international refineries decreased by 6.0%, or by $4 million, as a result of decreased production.

Refining expenses at third party and affiliated refineries

We did not process crude oil at third party refineries in the second quarter of 2010. However we commenced crude oil refining at TRN that compensated decrease in processing volumes.

In the second quarter of 2010, refining expenses at third party and affiliated refineries increased by 1.8%, compared to the second quarter of 2009, due to higher processing cost at Western European refineries compared to refineries in Russia and Belarus.

Petrochemical expenses

In the second quarter of 2010, operating expenses of our petrochemical plants increased by $15 million, or by 60.0%, compared to the second quarter of 2009 as a result of production increase. Moreover, expenses in Russia were impacted by the ruble appreciation.

Expenses for crude oil transportation to refineries

Expenses for crude oil transportation to refineries increased in the first quarter of 2010 by $19 million, or by 7.4%, compared to the second quarter of 2009, due to an increase in transportation tariff rates and as a result of the real ruble appreciation in Russia (see Transportation expenses below). Moreover, in the first half of 2010 we commenced supplying our crude oil to the TRN refinery.

Power generation and distribution expenses

Power generation and distribution expenses increased by $42 million, or by 40.8%, reflecting expansion of our power generation business emphasized by the real ruble appreciation in Russia.

Other operating expenses

In the second quarter of 2010, our other operating expenses decreased by $10 million, or by 2.7%, compared to the second quarter of 2009 following the decrease in other sales.

Cost of purchased crude oil, gas and products

Cost of purchased crude oil, gas and products increased by $2,845 million in the second quarter of 2010, or by 36.0%, compared to the same period of 2009, due to an increase in crude oil and refined products prices and increase in volumes of purchased refined products.

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 2010, we recognized a $319 million gain from hedging, compared to a $487 million expense in the second quarter of 2009.

Cost of purchased crude oil, gas and products includes purchases of natural gas and fuel oil to supply our power generation segment entities.

Transportation expenses

In the second quarter of 2010, our transportation expenses increased by $242 million, or by 20.4%, compared to the second quarter of 2009. This was primarily due to increase of freight rates for refined products outside of Russia and ruble denominated pipeline and railway transportation tariffs in Russia, which was emphasized by the ruble appreciation.

Selling, general and administrative expenses

In the second quarter of 2010, our selling, general and administrative expenses increased by $62 million, or by 7.8%, compared to the second quarter of 2009, reflecting the effect of ruble appreciation on selling, general and administrative expenses in Russia and increase in our selling expenses.

Depreciation, depletion and amortization

Our depreciation, depletion and amortization expenses increased by $21 million, or by 2.1%, compared to the second quarter of 2009.

Interest expense

In the second quarter of 2010, interest expense increased up to $196 million, which is 14.6% more than in the respective period of the previous year. This increase mainly relates to discounting of the VAT recoverable of our refinery in Ukraine as a result of the restructuring of this receivable.

Equity share in income of affiliates

Compared to the second quarter of 2009, our share in income of affiliates increased by $58 million, or by 81.7%. This was primarily due to share in income of our exploration and production subsidiaries.

Taxes other than income taxes

	2nd quarter of	
	2010	**2009**
	(millions of US dollars)	
In Russia		
Mineral extraction taxes	1,973	1,136
Social security taxes and contributions	95	97
Property tax	117	103
Other taxes	5	8
Total in Russia	**2,190**	**1,344**
International		
Mineral extraction taxes	18	14
Social security taxes and contributions	32	15
Property tax	11	8
Other taxes	18	14
Total internationally	**79**	**51**
Total	**2,269**	**1,395**

In the second quarter of 2010, taxes other than income taxes increased by 62.7%, or by $874 million, compared to the second quarter of 2009, mainly due to an increase in mineral extraction taxes in Russia. This is explained by an increase in the tax rate following the increase of international crude oil prices. Application of zero tax rate for crude oil produced in Timan-Pechora and decreased rate for depleted oilfields led to approximately $344 million tax reduction (in the second quarter of 2009 – about $300 million).

Excise and export tariffs

	2nd quarter of	
	2010	**2009**
	(millions of US dollars)	
In Russia		
Excise tax on refined products	218	184
Crude oil export tariffs	2,685	1,309
Refined products export tariffs	915	453
Total in Russia	**3,818**	**1,946**
International		
Excise tax and sales taxes on refined products	918	900
Crude oil export tariffs	26	18
Refined products export tariffs	–	24
Total internationally	**944**	**942**
Total	**4,762**	**2,888**

In spite of a decrease in crude oil and refined products export volumes, export tariffs increased by $1,822 million, or by 101.0%, compared to the second quarter of 2009, due to an increase in tariff rates in Russia as a result of international crude oil prices growth. The increase in excises in Russia was due to the ruble appreciation and increase of excise rate.

The Russian Government set a zero export rate for crude oil produced at certain fields in Eastern Siberia starting from the end of 2009. This benefit does not apply to crude oil production at our new oilfields in Caspian Sea and the Nenetsky Autonomous District.

Income taxes

In the second quarter of 2010, our total income tax expense decreased by $69 million, or by 10.7%, compared to the second quarter of 2009, due to the decrease in income before income tax by $256 million, or by 8.8%.

In the second quarter of 2010, our effective income tax rate was 21.8%, compared to 22.2% in the second quarter of 2009, which was higher than the maximum statutory rate for the Russian Federation (20%).

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

	2nd quarter of	
	2010	**2009**
	(millions of US dollars)	
Net income attributable to OAO LUKOIL	**1,949**	**2,324**
Add back:		
Income tax expense	574	643
Depreciation and amortization	1,030	1,009
Interest expense	196	171
Interest and dividend income	(45)	(27)
EBITDA	**3,704**	**4,120**

Liquidity and capital resources

	1st half of 2010	1st half of 2009
	(millions of US dollars)	
Net cash provided by operating activities	6,259	3,140
Net cash used in investing activities	(3,333)	(4,909)
Net cash (used in) provided by financing activities	(1,379)	1,114

Operating activities

Our primary source of cash flow is funds generated from our operations. During the first half of 2010, cash generated by operating activities was $6,259 million, which is twice more than in the same period of 2009, mainly due to the increase in sales revenues. In the first half of 2010, our operating cash inflows were positively impacted by a decrease of working capital by $101 million, compared to January 1, 2010. This was mainly caused by:

- a $948 million net decrease in tax accounts receivable
- an $211 million net increase in trade accounts receivable and payable.

At the same time, the effect from the above mentioned factors was partly offset by an increase in inventory of $764 million, and a $294 million net increase in other assets and liabilities.

Investing activities

The decrease in cash used in investing activities resulted from a decrease in payments for acquisitions by $1,857 million.

In the first half of 2010, we made an advance payment of $235 million for potential acquisitions of downstream assets in Russia.

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.

Financing activities

In the first half of 2010, net movements of short-term and long-term debt generated an outflow of $1,362 million, compared to an inflow of $1,138 million in the first half of 2009.

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. The bonds were repaid in June 2010.

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. All these loans were repaid in 2009.

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

Analysis of capital expenditures

	1st half of		2nd quarter of	
	2010	**2009**	**2010**	**2009**
	(millions of US dollars)			
Capital expenditures(1)				
Exploration and production				
Russia	1,838	1,899	976	939
International	552	342	297	184
Total exploration and production	2,390	2,241	1,273	1,123
Refining, marketing and distribution				
Russia	379	343	219	189
International	153	264	85	115
Total refining, marketing and distribution	532	607	304	304
Chemicals				
Russia	12	6	10	3
International	31	55	10	29
Total chemicals	43	61	20	32
Power generation and distribution	200	111	111	111
Other	25	20	14	4
Total capital expenditures	**3,190**	**3,040**	**1,722**	**1,574**
Acquisitions of subsidiaries and minority shareholding interest(2)				
Exploration and production				
Russia	3	197	–	117
International	–	–	–	–
Total exploration and production	3	197	–	117
Refining, marketing and distribution				
Russia	235	206	–	–
International	–	1,565	–	499
Total refining, marketing and distribution	235	1,771	–	499
Power generation and distribution	1	137	1	117
Less cash acquired	–	(9)	–	–
Total acquisitions	**239**	**2,096**	**1**	**733**

(1) Including non-cash transactions and prepayments.

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

During the first half of 2010, our capital expenditures, including non-cash transactions, amounted to $3,190 million, which is 4.9% more than in the first half of the previous year. Our capital expenditures in exploration and production increased by 6.6%, compared to the respective period of 2009. At the same time, the exploration and production capital expenditures in new regions decreased by $138 million. In the traditional exploration and production regions of Western Siberia and European Russia capital expenditures increased by $33 million and by $32 million, respectively. Our international capital expenditures (excluding the Caspian region) increased by $222 million, primarily relating to our projects in Iraq, Uzbekistan and Western Africa. Our capital expenditures in Iraq included payment of $112 million non-recoverable signature bonus for entering West Qurnah-2 project.

Capital expenses of our power generation and distribution entities related to fulfillment of their investment program.

The table below shows our exploration and production capital expenditures in promising new production regions. In April 2010, we started commercial production on the Yu. Korchagin field in the Caspian Sea. We plan to produce about 340 thousand tonnes from the field in 2010, whilst the maximum annual production from this field is expected to be 2.5 million tonnes of oil and gas condensate, and 1.0 billion cubic meters of gas.

	1st half of		**2nd quarter of**	
	2010	**2009**	**2010**	**2009**
	(millions of US dollars)			
Northern Timan-Pechora...	129	233	72	89
Yamal..	91	82	34	57
Caspian region[(1)]	165	208	100	113
Total	**385**	**523**	**206**	**259**

(1) Russian and international projects.