OAO LUKOIL

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(prepared in accordance with US GAAP)

As of and for the three and six month periods ended June 30, 2012

(unaudited)

These interim consolidated financial statements were prepared by OAO LUKOIL in accordance with US GAAP and have not been audited by our independent auditor. If these financial statements are audited in the future, the audit could reveal differences in our consolidated financial results and we can not assure that any such differences would not be material.

ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Accountants' Report

The Board of Directors
OAO LUKOIL:

We have reviewed the accompanying consolidated balance sheet of OAO LUKOIL and subsidiaries as of June 30, 2012, the related consolidated statements of comprehensive income for the three-month and six-month periods ended June 30, 2012 and 2011, and the related consolidated statements of stockholders' equity and cash flows for the six-month periods ended June 30, 2012 and 2011. This interim financial information is the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for them to be in conformity with accounting principles generally accepted in the United States of America.

ZAO KPMG

ZAO KPMG
Moscow, Russian Federation
August 27, 2012

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

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

	Note	As of June 30, 2012 (unaudited)	As of December 31, 2011
Assets			
Current assets			
Cash and cash equivalents	4	3,409	2,753
Short-term investments		233	157
Accounts receivable, net	5	9,129	8,921
Inventories		7,591	7,533
Prepaid taxes and other expenses		2,920	3,219
Other current assets		622	946
Total current assets		**23,904**	**23,529**
Investments	6	5,927	5,952
Property, plant and equipment	7,8	59,683	56,803
Deferred income tax assets		618	591
Goodwill and other intangible assets	9	1,305	1,344
Other non-current assets		1,451	2,973
Total assets		**92,888**	**91,192**
Liabilities and Equity			
Current liabilities			
Accounts payable		5,494	5,995
Short-term borrowings and current portion of long-term debt	10	1,797	1,792
Taxes payable		2,260	2,271
Other current liabilities		2,996	1,050
Total current liabilities		**12,547**	**11,108**
Long-term debt	11, 14	7,058	7,300
Deferred income tax liabilities		2,852	2,790
Asset retirement obligations	7	2,096	2,120
Other long-term liabilities		467	408
Total liabilities		**25,020**	**23,726**
Equity	13		
OAO LUKOIL stockholders' equity			
Common stock		15	15
Treasury stock, at cost		(5,189)	(4,081)
Equity-linked notes		(2,500)	(980)
Additional paid-in capital		4,846	4,798
Retained earnings		71,023	67,940
Accumulated other comprehensive loss		(47)	(54)
Total OAO LUKOIL stockholders' equity		**68,148**	**67,638**
Noncontrolling interests		(280)	(172)
Total equity		**67,868**	**67,466**
Total liabilities and equity		**92,888**	**91,192**

Vice-president of
OAO LUKOIL
Fedotov G.S.

Acting Vice-president – Chief accountant of
OAO LUKOIL
Kozyrev I.A.

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

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

	Note	For the three months ended June 30, 2012 (unaudited)	For the three months ended June 30, 2011 (unaudited)	For the six months ended June 30, 2012 (unaudited)	For the six months ended June 30, 2011 (unaudited)
Revenues					
Sales (including excise and export tariffs)	19	32,397	34,912	67,658	64,538
Costs and other deductions					
Operating expenses		(2,327)	(2,440)	(4,542)	(4,578)
Cost of purchased crude oil, gas and products		(14,416)	(15,162)	(30,784)	(28,007)
Transportation expenses		(1,497)	(1,653)	(3,102)	(3,073)
Selling, general and administrative expenses		(932)	(977)	(1,761)	(1,802)
Depreciation, depletion and amortization		(1,177)	(1,149)	(2,272)	(2,208)
Taxes other than income taxes		(3,461)	(3,547)	(6,939)	(6,369)
Excise and export tariffs		(6,090)	(5,777)	(11,667)	(10,391)
Exploration expenses		(104)	(85)	(147)	(113)
Gain (loss) on disposals and impairments of assets		175	(157)	166	(160)
Income from operating activities		**2,568**	**3,965**	**6,610**	**7,837**
Interest expense		(160)	(177)	(321)	(350)
Interest and dividend income		66	46	132	91
Equity share in income of affiliates	6	163	173	344	342
Currency translation loss		(310)	(93)	(396)	(158)
Other non-operating (expense) income		(45)	113	(67)	335
Income before income taxes		**2,282**	**4,027**	**6,302**	**8,097**
Current income taxes		(1,105)	(649)	(1,592)	(980)
Deferred income taxes		(68)	(165)	52	(473)
Total income tax expense	3	**(1,173)**	**(814)**	**(1,540)**	**(1,453)**
Net income		**1,109**	**3,213**	**4,762**	**6,644**
Net (income) loss attributable to noncontrolling interests		(91)	38	45	124
Net income attributable to OAO LUKOIL		**1,018**	**3,251**	**4,807**	**6,768**
Earnings per share of common stock attributable to OAO LUKOIL (US dollars):	13				
Basic		1.34	4.16	6.27	8.66
Diluted		1.32	4.08	6.15	8.48
Other comprehensive income, net of tax:					
Defined benefit pension plan:					
Prior service cost arising during the period		4	3	7	7
Unrealized gains on securities:					
Unrecognized gain on available-for-sale securities		-	-	-	1
Other comprehensive income		**4**	**3**	**7**	**8**
Comprehensive income		**1,113**	**3,216**	**4,769**	**6,652**
Comprehensive (income) loss attributable to noncontrolling interests		(91)	38	45	124
Comprehensive income attributable to OAO LUKOIL		**1,022**	**3,254**	**4,814**	**6,776**

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

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

	Common stock	Treasury stock	Equity-linked notes	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total OAO LUKOIL stockholders' equity	Noncontrol-ling interests	Total equity
Six months ended June 30, 2012									
Balance as of December 31, 2011	15	(4,081)	(980)	4,798	67,940	(54)	**67,638**	(172)	**67,466**
Net income (loss)	-	-	-	-	4,807	-	**4,807**	(45)	**4,762**
Other comprehensive income	-	-	-	-	-	7	**7**	-	**7**
Comprehensive income (loss)					4,807	7	**4,814**	**(45)**	**4,769**
Dividends on common stock	-	-	-	-	(1,724)	-	**(1,724)**	-	**(1,724)**
Effect of stock compensation plan	-	-	-	49	-	-	**49**	-	**49**
Stock purchased	-	(128)	(2,500)	-	-	-	**(2,628)**	-	**(2,628)**
Equity-linked notes conversion	-	(980)	980	-	-	-	**-**	-	**-**
Changes in noncontrolling interests	-	-	-	(1)	-	-	**(1)**	(63)	**(64)**
Balance as of June 30, 2012	**15**	**(5,189)**	**(2,500)**	**4,846**	**71,023**	**(47)**	**68,148**	**(280)**	**67,868**
Six months ended June 30, 2011									
Balance as of December 31, 2010	15	(3,683)	(980)	4,700	59,212	(67)	**59,197**	411	**59,608**
Net income (loss)	-	-	-	-	6,768	-	**6,768**	(124)	**6,644**
Other comprehensive income	-	-	-	-	-	8	**8**	-	**8**
Comprehensive income (loss)					6,768	8	**6,776**	**(124)**	**6,652**
Dividends on common stock	-	-	-	-	(1,629)	-	**(1,629)**	-	**(1,629)**
Effect of stock compensation plan	-	-	-	49	-	-	**49**	-	**49**
Stock purchased	-	(54)	-	-	-	-	**(54)**	-	**(54)**
Changes in noncontrolling interests	-	-	-	-	-	-	**-**	(50)	**(50)**
Balance as of June 30, 2011	**15**	**(3,737)**	**(980)**	**4,749**	**64,351**	**(59)**	**64,339**	**237**	**64,576**

	Share activity (thousands of shares)	
	Common stock	**Treasury stock**
Six months ended June 30, 2012		
Balance as of December 31, 2011	850,563	(76,101)
Stock purchased	-	(2,096)
Equity-linked notes conversion	-	(17,500)
Balance as of June 30, 2012	**850,563**	**(95,697)**
Six months ended June 30, 2011		
Balance as of December 31, 2010	850,563	(69,208)
Purchase of treasury stock	-	(865)
Balance as of June 30, 2011	**850,563**	**(70,073)**

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

OAO LUKOIL
Consolidated Statements of Cash Flows
(Millions of US dollars)

	Note	For the six months ended June 30, 2012 (unaudited)	For the six months ended June 30, 2011 (unaudited)
Cash flows from operating activities			
Net income attributable to OAO LUKOIL		**4,807**	**6,768**
Adjustments for non-cash items:			
Depreciation, depletion and amortization		2,272	2,208
Equity share in income of affiliates, net of dividends received		82	202
Dry hole write-offs		87	50
(Gain) loss on disposals and impairments of assets		(166)	160
Deferred income taxes		(52)	473
Non-cash currency translation (gain) loss		(38)	457
Non-cash investing activities		(3)	(5)
All other items – net		(72)	65
Changes in operating assets and liabilities:			
Trade accounts receivable		(187)	(1,035)
Inventories		(47)	(1,343)
Accounts payable		(460)	511
Taxes payable		(21)	488
Other current assets and liabilities		829	(709)
Net cash provided by operating activities		**7,031**	**8,290**
Cash flows from investing activities			
Acquisition of licenses		(5)	(6)
Capital expenditures		(5,327)	(3,570)
Proceeds from sale of property, plant and equipment		328	35
Purchases of investments		(131)	(43)
Proceeds from sale of investments		48	45
Sale of subsidiaries, net of cash disposed		4	9
Acquisitions of subsidiaries and equity method affiliates (including advances related to acquisitions), net of cash acquired		(115)	(2,130)
Net cash used in investing activities		**(5,198)**	**(5,660)**
Cash flows from financing activities			
Net movements of short-term borrowings		70	(202)
Proceeds from issuance of long-term debt		-	1
Principal repayments of long-term debt		(268)	(687)
Dividends paid on Company common stock		(4)	(1)
Dividends paid to noncontrolling interest stockholders		(29)	(50)
Financing received from noncontrolling interest stockholders		1	2
Purchase of Company's stock		(128)	(54)
Purchase of equity-linked notes		(740)	-
Purchase of noncontrolling interest		(2)	(1)
Net cash used in financing activities		**(1,100)**	**(992)**
Effect of exchange rate changes on cash and cash equivalents		(77)	71
Net increase in cash and cash equivalents		**656**	**1,709**
Cash and cash equivalents at beginning of period		2,753	2,368
Cash and cash equivalents at end of period	4	**3,409**	**4,077**

Supplemental disclosures of cash flow information		
Interest paid	257	333
Income taxes paid	1,101	1,115

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

Note 1. Organization and environment

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

The Group was established in accordance with Presidential Decree 1403, issued on November 17, 1992. Under this decree, on April 5, 1993, the Government of the Russian Federation transferred to the Company 51% of the voting shares of fifteen enterprises. Under Government Resolution 861 issued on September 1, 1995, a further nine enterprises were transferred to the Group during 1995. Since 1995, the Group has carried out a share exchange program to increase its shareholding in each of the twenty-four founding subsidiaries to 100%.

From formation, the Group has expanded substantially through consolidation of its interests, acquisition of new companies and establishment of new businesses.

Business and economic environment

The accompanying interim consolidated financial statements reflect management's assessment of the impact of the business environment in the countries in which the Group operates on the operations and the financial position of the Group. The future business environments may differ from management's assessment.

Basis of preparation

The accompanying interim consolidated financial statements and notes thereto have not been audited by independent accountants, except for the balance sheet as of December 31, 2011. In the opinion of the Company's management, the interim consolidated financial statements include all adjustments and disclosures necessary to present fairly the Group's financial position, results of operations and cash flows for the interim periods reported herein. These adjustments were of a normal recurring nature.

These interim consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America ("US GAAP") as applicable to interim consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the Group's December 31, 2011 annual consolidated financial statements.

The results for the six-month period ended June 30, 2012 are not necessarily indicative of the results expected for the full year.

Note 2. Summary of significant accounting policies

Principles of consolidation

These interim consolidated financial statements include the financial position and results of the Company, controlled subsidiaries of which the Company directly or indirectly owns more than 50% of the voting interest, unless minority stockholders have substantive participating rights, and variable interest entities where the Group is determined to be the primary beneficiary. Other significant investments in companies of which the Company directly or indirectly owns between 20% and 50% of the voting interest and over which it exercises significant influence but not control, are accounted for using the equity method of accounting. Investments in companies of which the Company directly or indirectly owns more than 50% of the voting interest but where minority stockholders have substantive participating rights are accounted for using the equity method of accounting. Undivided interests in oil and gas joint ventures are accounted for using the proportionate consolidation method. Investments in other companies are recorded at cost. Equity investments and investments in other companies are included in "Investments" in the consolidated balance sheet.

Note 2. Summary of significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying value of oil and gas properties and other property, plant and equipment, goodwill impairment assessment, asset retirement obligations, deferred income taxes, valuation of financial instruments, and obligations related to employee benefits. Eventual actual amounts could differ from those estimates.

Revenues

Revenues are recognized when title passes to customers at which point the risks and rewards of ownership are assumed by the customer and the price is fixed or determinable. Revenues include excise on petroleum products' sales and duties on export sales of crude oil and petroleum products.

Revenues from non-cash sales are recognized at the fair market value of the crude oil and petroleum products sold.

Foreign currency translation

The Company maintains its accounting records in Russian rubles. The Company's functional currency is the US dollar and the Group's reporting currency is the US dollar.

For the majority of operations in the Russian Federation and outside the Russian Federation, the US dollar is the functional currency. Where the US dollar is the functional currency, monetary assets and liabilities have been translated into US dollars at the rate prevailing at each balance sheet date. Non-monetary assets and liabilities have been translated into US dollars at historical rates. Revenues, expenses and cash flows have been translated into US dollars at rates which approximate actual rates at the date of the transaction. Translation differences resulting from the use of these rates are included in profit or loss.

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

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

As of June 30, 2012 and December 31, 2011, exchange rates of 32.82 and 32.20 Russian rubles to the US dollar, respectively, have been used for translation purposes.

Cash and cash equivalents

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

Cash with restrictions on immediate use

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

Note 2. Summary of significant accounting policies (continued)

Accounts receivable

Accounts receivable are recorded at their transaction amounts less provisions for doubtful debts. Provisions for doubtful debts are recorded to the extent that there is a likelihood that any of the amounts due will not be collected. Non-current receivables are discounted to the present value of expected cash flows in future periods using the original discount rate.

Inventories

The cost of finished goods and purchased products is determined using the first-in, first-out cost method (FIFO). The cost of all other inventory categories is determined using an "average cost" method.

Investments

Debt and equity securities are classified into one of three categories: trading, available-for-sale, or held-to-maturity.

Trading securities are bought and held principally for the purpose of selling in the near term. Held-to-maturity securities are those securities in which a Group company has the ability and intent to hold until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses on trading securities are included in profit or loss. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are reported as a separate component of other comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis. Dividends and interest income are recognized in profit or loss when earned.

A permanent decline in the market value of any available-for-sale or held-to-maturity security below cost is accounted for as a reduction in the carrying amount to fair value. The impairment is charged to profit or loss and a new cost base for the security is established. Premiums and discounts are amortized or accreted over the life of the related held-to-maturity or available-for-sale security as an adjustment to yield using the effective interest method and such amortization and accretion is recorded in profit or loss.

Property, plant and equipment

Oil and gas properties are accounted for using the successful efforts method of accounting whereby property acquisitions, successful exploratory wells, all development costs (including development dry holes and the Group's share of operators' expenses during the development stage of production sharing and risk service contracts), and support equipment and facilities are capitalized. Unsuccessful exploratory wells are expensed when a well is determined to be non-productive. Other exploratory expenditures, including geological and geophysical costs are expensed as incurred.

The Group continues to capitalize costs of exploratory wells and exploratory-type stratigraphic wells for more than one year after the completion of drilling if the well has found a sufficient quantity of reserves to justify its completion as a producing well and the Company is making sufficient progress towards assessing the reserves and the economic and operating viability of the project. If these conditions are not met or if information that raises substantial doubt about the economic or operational viability of the project is obtained, the well would be assumed impaired, and its costs, net of any salvage value, would be charged to expense.

Note 2. Summary of significant accounting policies (continued)

Depreciation, depletion and amortization of capitalized costs of oil and gas properties is calculated using the unit-of-production method based upon proved reserves for the cost of property acquisitions and proved developed reserves for exploration and development costs.

Production and related overhead costs are expensed as incurred.

Depreciation of assets not directly associated with oil production is calculated on a straight-line basis over the economic lives of such assets, estimated to be in the following ranges:

Buildings and constructions	5 – 40	years
Machinery and equipment	5 – 20	years

In addition to production assets, certain Group companies also maintain and construct social assets for the use of local communities. Such assets are capitalized only to the extent that they are expected to result in future economic benefits to the Group. If capitalized, they are depreciated over their estimated economic lives.

Significant unproved properties are assessed for impairment individually on a regular basis and any estimated impairment is charged to expense.

Asset retirement obligations

The Group records the fair value of liabilities related to its legal obligations to abandon, dismantle or otherwise retire tangible long-lived assets in the period in which the liability is incurred. A corresponding increase in the carrying amount of the related long-lived asset is also recorded. Subsequently, the liability is accreted for the passage of time and the related asset is depreciated using the unit-of-production method.

Goodwill and other intangible assets

Goodwill represents the excess of the cost of an acquired entity over the net of the fair value amounts assigned to assets acquired and liabilities assumed. It is assigned to reporting units as of the acquisition date. Goodwill is not amortized, but is tested for impairment at least on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The impairment test requires assessing qualitative factors and then, if it is necessary, estimating the fair value of a reporting unit and comparing it with its carrying amount, including goodwill assigned to the reporting unit. If the estimated fair value of the reporting unit is less than its net carrying amount, including goodwill, then the goodwill is written down to its implied fair value.

Intangible assets with indefinite useful lives are tested for impairment at least annually. Intangible assets that have limited useful lives are amortized on a straight-line basis over the shorter of their useful or legal lives.

Impairment of long-lived assets

Long-lived assets, such as oil and gas properties (other than unproved properties), other property, plant, and equipment, and purchased intangibles subject to amortization, are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to the estimated undiscounted future cash flows expected to be generated by that group. If the carrying amount of an asset group exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by writing down the carrying amount to the estimated fair value of the asset group, generally determined as discounted future net cash flows. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale are presented separately in the appropriate asset and liability sections of the balance sheet.

Note 2. Summary of significant accounting policies (continued)

Income taxes

Deferred income tax assets and liabilities are recognized in respect of the future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purposes of the consolidated financial statements and their respective tax bases and in respect of operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse and the assets be recovered and liabilities settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in profit or loss in the reporting period which includes the enactment date. The estimated effective income tax rate expected to be applicable for the full fiscal year is used in providing for income taxes on a current year-to-date basis.

The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income in the reporting periods in which the originating expenditure becomes deductible. In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that the deferred income tax assets will be realized. In making this assessment, management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies.

An income tax position is recognized only if the uncertain position is more likely than not of being sustained upon examination, based on its technical merits. A recognized income tax position is measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties relating to income tax in income tax expense in profit or loss.

Interest-bearing borrowings

Interest-bearing borrowings from third parties (except convertible notes) are initially recorded at the value of net proceeds received. Any difference between the net proceeds and the redemption value is amortized at a constant rate over the term of the borrowing. Amortization is included in profit or loss and the carrying amounts are adjusted as amortization accumulates.

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

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

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

Pension benefits

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

Note 2. Summary of significant accounting policies (continued)

Treasury stock

Purchases by Group companies of the Company's outstanding stock are recorded at cost and classified as treasury stock within Stockholders' equity. Shares shown as Authorized and Issued include treasury stock. Shares shown as Outstanding do not include treasury stock.

Earnings per share

Basic earnings per share is computed by dividing net income available to common stockholders of the Company by the weighted-average number of shares of common stock outstanding during the reporting period. A calculation is carried out to establish if there is potential dilution in earnings per share if convertible securities were to be converted into shares of common stock or contracts to issue shares of common stock were to be exercised. If there is such dilution, diluted earnings per share is presented.

Contingencies

Certain conditions may exist as of the balance sheet date, which may result in losses to the Group but the impact of which will only be resolved when one or more future events occur or fail to occur.

If a Group company's assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability is accrued and charged to profit or loss. If the assessment indicates that a potentially material loss is not probable, but is reasonably possible, or is probable, but cannot be reasonably estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, is disclosed in the notes to the consolidated financial statements. Loss contingencies considered remote or related to unasserted claims are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed.

Environmental expenditures

Estimated losses from environmental remediation obligations are generally recognized no later than completion of remedial feasibility studies. Group companies accrue for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change. Costs of expected future expenditures for environmental remediation obligations are not discounted to their present value.

Use of derivative instruments

The Group's derivative activity is limited to certain petroleum products' marketing and trading operations and hedging of commodity price risks. Currently this activity involves the use of futures and swaps contracts together with purchase and sale contracts that qualify as derivative instruments. The Group accounts for these activities under the mark-to-market methodology in which the derivatives are revalued each accounting period. Resulting realized and unrealized gains or losses are presented in profit or loss on a net basis. Unrealized gains and losses are carried as assets or liabilities on the consolidated balance sheet.

Share-based payments

The Group accounts for liability classified share-based payment awards to employees at fair value on the date of grant and as of each reporting date. Expenses are recognized over the vesting period. Equity classified share-based payment awards to employees are valued at fair value on the date of grant and expensed over the vesting period.

Comparative amounts

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

Note 2. Summary of significant accounting policies (continued)

Changes in accounting policy

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

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

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

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

Recent accounting pronouncements

In December 2011, the FASB issued ASU No. 2011-11, *"Disclosures about Offsetting Assets and Liabilities."* This ASU requires entities to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The scope includes derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. ASU No. 2011-11 is effective for annual reporting periods on or after January 1, 2013, and interim periods within those annual periods, and should be applied retrospectively. The Group is evaluating the effect of the adoption of ASU No. 2011-11 and does not expect any material impact on its results of operations, financial position or cash flows.

Note 3. Income taxes

Operations in the Russian Federation are subject to a Federal income tax rate of 2.0% and a regional income tax rate that varies from 13.5% to 18.0% at the discretion of the individual regional administration. The Group's foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

The Group's effective income tax rate for the periods presented differs from the statutory income tax rate primarily due to domestic and foreign rate differences, the incurrence of costs that are either not tax deductible or only deductible to a certain limit and taxable or deductible income or loss on foreign currency translation differences of Russian Group companies.

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

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

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

Note 4. Cash and cash equivalents

	As of June 30, 2012	As of December 31, 2011
Cash held in Russian rubles	1,625	926
Cash held in US dollars	1,180	1,224
Cash held in other currencies	234	271
Cash held in related party banks in Russian rubles	344	309
Cash held in related party banks in other currencies	26	23
Total cash and cash equivalents	**3,409**	**2,753**

Note 5. Accounts receivable, net

	As of June 30, 2012	As of December 31, 2011
Trade accounts receivable (net of provisions of $199 million and $179 million as of June 30, 2012 and December 31, 2011, respectively)	6,976	7,209
Current VAT and excise recoverable	1,648	1,333
Other current accounts receivable (net of provisions of $63 million and $54 million as of June 30, 2012 and December 31, 2011, respectively)	505	379
Total accounts receivable, net	**9,129**	**8,921**

Note 6. Investments

	As of June 30, 2012	As of December 31, 2011
Investments in equity method affiliates and joint ventures	4,867	4,887
Long-term loans to equity method affiliates and joint ventures	1,024	1,001
Other long-term investments	36	64
Total long-term investments	**5,927**	**5,952**

Note 6. Investments (continued)

Investments in "equity method" affiliates and joint ventures

The summarized financial information below is in respect of equity method affiliates and corporate joint ventures. The companies are primarily engaged in crude oil exploration, production, marketing and distribution operations in the Russian Federation, crude oil production and marketing in Kazakhstan, and refining operations in Europe.

	For the three months ended June 30, 2012		For the three months ended June 30, 2011	
	Total	Group's share	Total	Group's share
Revenues	7,517	1,146	8,518	1,284
Income before income taxes	3,094	221	3,578	275
Less income taxes	(943)	(58)	(1,130)	(102)
Net income	**2,151**	**163**	**2,448**	**173**

	For the six months ended June 30, 2012		For the six months ended June 30, 2011	
	Total	Group's share	Total	Group's share
Revenues	15,776	2,379	16,420	2,371
Income before income taxes	6,540	476	6,906	509
Less income taxes	(2,007)	(132)	(2,106)	(167)
Net income	**4,533**	**344**	**4,800**	**342**

	As of June 30, 2012		As of December 31, 2011	
	Total	Group's share	Total	Group's share
Current assets	5,455	1,243	7,379	1,406
Property, plant and equipment	20,625	5,914	19,064	5,587
Other non-current assets	2,369	429	1,454	462
Total assets	28,449	7,586	27,897	7,455
Short-term debt	1,357	319	1,100	223
Other current liabilities	3,479	666	3,703	668
Long-term debt	7,539	1,180	7,461	1,069
Other non-current liabilities	1,588	554	1,581	608
Net assets	**14,486**	**4,867**	**14,052**	**4,887**

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

Note 6. Investments (continued)

In January 2012, the Group received a notice that the Board of Directors of ERG S.p.A. ("ERG") decided to exercise its option to sell to the Group a further 20% interest in the joint venture which operates the ISAB refining complex (Priolo, Italy). The notice was received in accordance with the initial agreement on the establishment of the joint venture signed in 2008. This agreement gave the second investor – ERG a step-by-step put option to sell its share in the joint venture to the Group. Approval of regulatory authorities has been received. The transaction is expected to be finalized in September 2012 in the amount of €400 million($526 million), excluding inventory. Accordingly, the Group's stake in the joint venture will be increased from 60% to 80% and the Group will then obtain control. In April 2011, the Group acquired an 11% interest in the joint venture for approximately €241 million ($342 million). The acquisition was also executed in accordance with the initial agreement on the establishment of the joint venture. As a result the Group's interest in the joint venture was increased from 49% to 60% and, based on the agreement, ERG and the Company still have equal participation rights. Therefore the Group continues to use the equity method of accounting for this joint venture.

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

	At cost		Net	
	As of June 30, 2012	**As of December 31, 2011**	**As of June 30, 2012**	**As of December 31, 2011**
Exploration and Production:				
Russia	57,488	54,269	36,534	34,415
International	8,738	8,138	6,806	6,376
Total	66,226	62,407	43,340	40,791
Refining, Marketing, Distribution and Chemicals:				
Russia	12,519	12,133	7,425	7,395
International	7,198	6,903	4,445	4,282
Total	19,717	19,036	11,870	11,677
Power generation and other:				
Russia	5,172	4,890	4,177	4,026
International	421	406	296	309
Total	5,593	5,296	4,473	4,335
Total property, plant and equipment	**91,536**	**86,739**	**59,683**	**56,803**

As of June 30, 2012 and December 31, 2011, the asset retirement obligation amounted to $2,101 million and $2,126 million, respectively, of which $5 and $6 million was included in "Other current liabilities" in the consolidated balance sheets as of June 30, 2012 and December 31, 2011, respectively. During the six-month periods ended June 30, 2012 and 2011, asset retirement obligations changed as follows:

	For the six months ended June 30, 2012	**For the six months ended June 30, 2011**
Asset retirement obligations as of January 1	2,126	1,798
Accretion expense	85	77
New obligations	70	32
Changes in estimates of existing obligations	(62)	(9)
Spending on existing obligations	(2)	(1)
Property dispositions	(7)	(2)
Foreign currency translation and other adjustments	(109)	120
Asset retirement obligations as of June 30	**2,101**	**2,015**

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

Note 8. Suspended wells

During the six-month period ended June 30, 2012, total suspended exploratory well costs capitalized changed insignificantly ($511 million and $542 million as of June 30, 2012 and December 31, 2011, respectively). Suspended exploratory well costs capitalized for a period greater than one year amounted to $437 million and $464 million as of June 30, 2012 and December 31, 2011, respectively. No wells were charged to expenses during the six-month period ended June 30, 2012.

Note 9. Goodwill and other intangible assets

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

	As of June 30, 2012	As of December 31, 2011
Amortized intangible assets		
Software	412	389
Licenses and other assets	281	343
Goodwill	612	612
Total goodwill and other intangible assets	**1,305**	**1,344**

All goodwill amounts relate to the refining, marketing and distribution segment. During the six-month period ended June 30, 2012, there were no changes in goodwill.

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

	As of June 30, 2012	As of December 31, 2011
Short-term borrowings from third parties	101	118
Short-term borrowings from related parties	105	30
Current portion of long-term debt	1,591	1,644
Total short-term borrowings and current portion of long-term debt	**1,797**	**1,792**

Short-term borrowings from third parties are unsecured and include amounts repayable in US dollars of $54 million and $56 million, amounts repayable in Euro of $6 million and $17 million and amounts repayable in other currencies of $41 million and $45 million as of June 30, 2012 and December 31, 2011, respectively. The weighted-average interest rate on short-term borrowings from third parties was 5.94% and 4.93% per annum as of June 30, 2012 and December 31, 2011, respectively.

Note 11. Long-term debt

	As of June 30, 2012	As of December 31, 2011
Long-term loans and borrowings from third parties	2,383	2,652
6.375% non-convertible US dollar bonds, maturing 2014	898	897
2.625% convertible US dollar bonds, maturing 2015	1,424	1,412
6.356% non-convertible US dollar bonds, maturing 2017	500	500
7.250% non-convertible US dollar bonds, maturing 2019	596	596
6.125% non-convertible US dollar bonds, maturing 2020	998	998
6.656% non-convertible US dollar bonds, maturing 2022	500	500
13.35% Russian ruble bonds, maturing 2012	762	776
9.20% Russian ruble bonds, maturing 2012	305	311
7.40% Russian ruble bonds, maturing 2013	183	186
Capital lease obligations	100	116
Total long-term debt	8,649	8,944
Current portion of long-term debt	(1,591)	(1,644)
Total non-current portion of long-term debt	**7,058**	**7,300**

Note 11. Long-term debt (continued)

Long-term loans and borrowings

Long-term loans and borrowings from third parties include amounts repayable in US dollars of $655 million and $834 million, amounts repayable in Euro of $245 million and $284 million, amounts repayable in Russian rubles of $1,464 million and $1,514 million, and amounts repayable in other currencies of $19 million and $20 million as of June 30, 2012 and December 31, 2011, respectively. This debt has maturity dates from 2012 through 2038. The weighted-average interest rate on long-term loans and borrowings from third parties was 5.60% and 5.39% per annum as of June 30, 2012 and December 31, 2011, respectively. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. Approximately 10% of total long-term debt is secured by export sales and property, plant and equipment.

Group companies have a number of loan agreements denominated in Russian rubles with ConocoPhillips, the Group's former related party, with an outstanding amount of $1,464 million as of June 30, 2012. This amount includes $1,309 million loaned by ConocoPhillips to joint venture OOO Narianmarneftegaz ("NMNG") (refer to Note 15. Consolidation of Variable Interest Entity). Borrowings under these agreements bear interest at fixed rates ranging from 6.8% to 8.0% per annum and have maturity dates up to 2038. Financing under these agreements is used to develop oil production and distribution infrastructure in the Timan-Pechora region of the Russian Federation.

US dollar convertible bonds

In December 2010, a Group company issued unsecured convertible bonds totaling $1.5 billion with a coupon yield of 2.625% and maturity in June 2015. The bonds were placed at face value. The bonds are convertible into LUKOIL ADRs (each representing one ordinary share of the Company) and have a conversion price of $73.3912 per ADR. Bondholders have the right to convert the bonds into LUKOIL ADRs during the period starting from 40 days after the issue date and ending 6 dealing days before the maturity date. The issuer has the right to redeem the bonds after December 31, 2013.

US dollar non-convertible bonds

In November 2010, a Group company issued two tranches of non-convertible bonds totaling $1.0 billion with a coupon yield of 6.125% and maturity in 2020. The first tranche totaling $800 million was placed at a price of 99.081% of the bond's face value with a resulting yield to maturity of 6.250%. The second tranche totaling $200 million was placed at a price of 102.44% of the bond's face value with a resulting yield to maturity of 5.80%. These tranches have a half year coupon period.

In November 2009, a Group company issued two tranches of non-convertible bonds totaling $1.5 billion. The first tranche totaling $900 million with a coupon yield of 6.375% per annum was placed with a maturity of 5 years at a price of 99.474% of the bond's face value with a resulting yield to maturity of 6.500%. The second tranche totaling $600 million with a coupon yield of 7.250% per annum was placed with a maturity of 10 years at a price of 99.127% of the bond's face value with a resulting yield to maturity of 7.375%. These tranches have a half year coupon period.

In June 2007, a Group company issued non-convertible bonds totaling $1 billion. $500 million were placed with a maturity of 10 years and a coupon yield of 6.356% per annum. Another $500 million were placed with a maturity of 15 years and a coupon yield of 6.656% per annum. All bonds were placed at face value and have a half year coupon period.

Russian ruble bonds

In December 2009, the Company issued 10 million stock exchange bonds with a face value of 1,000 Russian rubles each. The bonds were placed at face value with a maturity of 1,092 days. The bonds have a 182 days' coupon period and bear interest at 9.20% per annum.

Note 11. Long-term debt (continued)

In August 2009, the Company issued 25 million stock exchange bonds with a face value of 1,000 Russian rubles each. The bonds were placed at face value with a maturity of 1,092 days. The bonds have a 182 days' coupon period and bear interest at 13.35% per annum.

In December 2006, the Company issued 14 million non-convertible bonds with a face value of 1,000 Russian rubles each. Eight million bonds were placed with a maturity of 5 years and a coupon yield of 7.10% per annum and six million bonds were placed with a maturity of 7 years and a coupon yield of 7.40% per annum. All bonds were placed at face value and have a half year coupon period. In December 2011, the Company redeemed all issued bonds with a maturity of five years in accordance with the conditions of the bond issue.

Note 12. Pension benefits

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

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

Components of net periodic benefit cost were as follows:

	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Service cost	3	4	7	8
Interest cost	5	6	10	12
Less expected return on plan assets	(3)	(3)	(5)	(6)
Amortization of prior service cost	4	3	7	7
Total net periodic benefit cost	**9**	**10**	**19**	**21**

Note 13. Stockholders' equity

Common stock

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

Note 13. Stockholders' equity (continued)

Earnings per share

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

	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Net income	1,018	3,251	4,807	6,768
Add back interest and accretion on 2.625% convertible US dollar bonds, maturing 2015 (net of tax at effective rate)	15	16	31	31
Total diluted net income	1,033	3,267	4,838	6,799
Weighted average number of outstanding common shares (thousands of shares)	759,673	781,228	766,373	781,291
Add back treasury shares held in respect of convertible debt (thousands of shares)	20,438	20,350	20,438	20,350
Weighted average number of outstanding common shares, assuming dilution (thousands of shares)	780,111	801,578	786,811	801,641
Earnings per share of common stock attributable to OAO LUKOIL (US dollars):				
Basic	1.34	4.16	6.27	8.66
Diluted	1.32	4.08	6.15	8.48

Equity-linked notes

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

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

Dividends

At the annual stockholders' meeting on June 27, 2012, dividends were declared for 2011 in the amount of 75.00 Russian rubles per common share, which at the date of the meeting was equivalent to $2.26. Dividends payable of $1,749 million and $10 million are included in "Other current liabilities" in the consolidated balance sheets as of June 30, 2012 and December 31, 2011, respectively.

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

Note 14. Financial and derivative instruments

Fair value

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

Note 14. Financial and derivative instruments (continued)

The fair value of long-term debt (Level 3) differs from the amount disclosed in the consolidated financial statements. The estimated fair value of long-term debt as of June 30, 2012 and December 31, 2011 was $8,704 million and $8,666 million, respectively, as a result of discounting using estimated market interest rates for similar financing arrangements. These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion and interest. Market interest rates mean the rates of raising long-term debt by companies with a similar credit rating for similar tenors, repayment schedules and similar other main terms. During the six months ended June 30, 2012, the Group did not have significant transactions or events that would result in nonfinancial assets and liabilities measured at fair value on a nonrecurring basis.

Derivative instruments

The Group uses financial and commodity-based derivative contracts to manage exposures to fluctuations in foreign currency exchange rates, commodity prices, or to exploit market opportunities. Since the Group is not currently using hedge accounting, defined by Topic 815, *"Derivative and hedging,"* of the Codification, all gains and losses, realized or unrealized, from derivative contracts have been recognized in profit or loss.

Topic 815 of the Codification requires purchase and sales contracts for commodities that are readily convertible to cash (e.g., crude oil, natural gas and gasoline) to be recorded on the balance sheet as derivatives unless the contracts are for quantities the Group expects to use or sell over a reasonable period in the normal course of business (i.e., contracts eligible for the normal purchases and normal sales exception). The Group does apply the normal purchases and normal sales exception to certain long-term contracts to sell oil products. This normal purchases and normal sales exception is applied to eligible crude oil and refined product commodity purchase and sales contracts. However, the Group may elect not to apply this exception (e.g., when another derivative instrument will be used to mitigate the risk of a purchase or sale contract but hedge accounting will not be applied; in which case both the purchase or sales contract and the derivative contract mitigating the resulting risk will be recorded on the balance sheet at fair value).

The fair value hierarchy for the Group's derivative assets and liabilities accounted for at fair value on a recurring basis was:

	As of June 30, 2012				As of December 31, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Commodity derivatives	-	1,747	-	**1,747**	-	575	-	**575**
Total assets	**-**	**1,747**	**-**	**1,747**	**-**	**575**	**-**	**575**
Liabilities								
Commodity derivatives	-	(1,592)	-	**(1,592)**	-	(599)	-	**(599)**
Total liabilities	**-**	**(1,592)**	**-**	**(1,592)**	**-**	**(599)**	**-**	**(599)**
Net assets (liabilities)	**-**	**155**	**-**	**155**	**-**	**(24)**	**-**	**(24)**

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

Note 14. Financial and derivative instruments (continued)

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

Commodity derivative contracts

The Group operates in the worldwide crude oil, refined product, natural gas and natural gas liquids markets and is exposed to fluctuations in the prices for these commodities. These fluctuations can affect the Group's revenues as well as the cost of operating, investing and financing activities. Generally, the Group's policy is to remain exposed to the market prices of commodities. However, the Group uses futures, forwards, swaps and options in various markets to balance physical systems, meet customer needs, manage price exposures on specific transactions, and do an immaterial amount of trading not directly related to the Group's physical business. These activities may move the Group's profile away from market average prices.

The fair value of commodity derivative assets and liabilities as of June 30, 2012 was:

	As of June 30, 2012
Assets	
Accounts receivable	1,747
Liabilities	
Accounts payable	1,592

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

As required under Topic 815 of the Codification the amounts shown in the preceding table are presented gross (i.e., without netting assets and liabilities with the same counterparty where the right of offset and intent to net exist). Derivative assets and liabilities resulting from eligible commodity contracts have been netted in the consolidated balance sheet and are recorded as accounts receivable in the amount of $209 million and accounts payable in the amount of $54 million.

Financial results from commodity derivatives were included in the consolidated income statements in "Cost of purchased crude oil, gas and products". Realized losses were $99 million and unrealized gains were $181 million for the six months ended June 30, 2012.

As of June 30, 2012, the net position of outstanding commodity derivative contracts, primarily to manage price exposure on underlying operations, was not significant.

Currency exchange rate derivative contracts

The Group has foreign currency exchange rate risk resulting from its international operations. The Group does not comprehensively hedge the exposure to currency rate changes, although the Group selectively hedges certain foreign currency exchange rate exposures, such as firm commitments for capital projects or local currency tax payments and dividends.

The fair value of foreign currency derivatives assets and liabilities open as of June 30, 2012 was not significant.

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

Note 14. Financial and derivative instruments (continued)

Credit risk

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

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

Certain of the Group's derivative instruments contain provisions that require the Group to post collateral if the derivative exposure exceeds a threshold amount. The Group has contracts with fixed threshold amounts and other contracts with variable threshold amounts that are contingent on the Group's credit rating. The variable threshold amounts typically decline for lower credit ratings, while both the variable and fixed threshold amounts typically revert to zero if the Group falls below investment grade. Cash is the primary collateral in all contracts; however, many contracts also permit the Group to post letters of credit as collateral.

There were no derivative instruments with such credit-risk-related contingent features that were in a liability position as of June 30, 2012. The Group posted $28 million in collateral in the normal course of business for the over-the-counter derivatives. If the Group's credit rating were lowered one level from its "BBB-" rating (per Standard and Poors) as of June 30, 2012, and it would be below investment grade, the Group would be required to post additional collateral of $5 million to the Group's counterparties for the over-the-counter derivatives, either with cash or letters of credit. The maximum additional collateral based on the lowest downgrade would be $14 million in total.

Note 15. Consolidation of Variable Interest Entity

The Group and ConocoPhillips had a joint venture, NMNG, which develops oil reserves in the Timan-Pechora region of the Russian Federation. The Group and ConocoPhillips had equal voting rights over the joint venture's activity and effective ownership interests of 70% and 30%, respectively. In August 2012, the Group increased its ownership in NMNG to 100% (refer to Note 20. Subsequent events).

The Group originally determined that NMNG is a variable interest entity ("VIE") as the Group's voting rights are not proportionate to its ownership rights and all of NMNG's activities are conducted on behalf of the Group and ConocoPhillips, its former related party. Based on the requirements of Topic 810, *"Consolidation,"* of the Codification, the Group performed a regular qualitative analysis as to whether it is the primary beneficiary of this VIE. As a result the Group is still considered to be the primary beneficiary of NMNG during the six-month period ended June 30, 2012, and consolidated it.

NMNG's total assets were approximately $3.1 and $3.3 billion as of June 30, 2012 and December 31, 2011, respectively.

Note 16. Commitments and contingencies

Capital expenditure, exploration and investment programs

Under the terms of existing exploration and production license agreements in Russia the Group has to fulfill certain obligations: oil and gas exploration, wells drilling, fields development, etc., and the Group also has commitments to reach a defined level of extraction on the fields. Management believes that the Group's approved annual capital expenditure budgets fully cover all the requirements of the described license obligations.

In 2012, a construction agreement for a heavy-residue hydrocracking complex at Group refinery LUKOIL Neftochim Bourgas AD in Bulgaria was signed. Commissioning of the complex is expected in 2015. The amount of capital commitment under this agreement is approximately $1.1 billion.

Group companies have commitments for capital expenditure contributions in the amount of $475 million related to various production sharing agreements over the next 26 years.

The Company has signed a three-year agreement for the years 2010-2012 for drilling services with OOO Eurasia Drilling Company. The volume of these services is based on the Group's capital construction program, which is re-evaluated on an annual basis. The Group estimates the amount of capital commitment under this agreement for the second half of 2012 to be approximately $702 million.

The Company has signed a strategic agreement for the ongoing provision of construction, engineering and technical services with ZAO Globalstroy-Engineering. The volume of these services is based on the Group's capital construction program, which is re-evaluated on an annual basis. The Group estimates the amount of capital commitment under this agreement for the second half of 2012 to be approximately $262 million.

The Group signed a number of agreements for the years 2012-2015 for construction of offshore platforms in the Caspian region. The Group estimates the amount of this capital commitment to be approximately $1,369 million.

The Group has a commitment to execute the capital construction program of its power generation segment and under the terms of this program power plants with a total capacity of 890 MW should be constructed. Currently the Group is applying for certain amendments to the capital construction program, including its extension to the end of 2015. As of June 30, 2012, the Group estimates the amount of this commitment to be approximately $457 million.

Operating lease obligations

Group companies have commitments of $450 million primarily for the lease of vessels and petroleum distribution outlets. Operating lease expenses were $51 million, $37 million, $101 million and $82 million for the three months ended June 30, 2012 and 2011 and for the six months ended June 30, 2012 and 2011, respectively. Commitments for minimum rentals under these leases as of June 30, 2012 are as follows:

	As of June 30, 2012
For the six-months ending December 31, 2012	76
2013 fiscal year	103
2014 fiscal year	81
2015 fiscal year	56
2016 fiscal year	42
beyond	92

Note 16. Commitments and contingencies (continued)

Insurance

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

Environmental liabilities

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

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

Social assets

Certain Group companies contribute to Government sponsored programs, the maintenance of local infrastructure and the welfare of their employees within the Russian Federation and elsewhere. Such contributions include assistance with the construction, development and maintenance of housing, hospitals and transport services, recreation and other social needs. The funding of such assistance is periodically determined by management and is appropriately capitalized (only to the extent that they are expected to result in future economic benefits to the Group) or expensed as incurred.

Taxation environment

The taxation systems in the Russian Federation and other emerging markets where Group companies operate are relatively new and are characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among different tax authorities within the same jurisdictions and among taxing authorities in different jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. In the Russian Federation a tax year remains open for review by the tax authorities during the three subsequent calendar years. However, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation. Such factors may create substantially more significant taxation risks in the Russian Federation and other emerging markets where Group companies operate, than those in other countries where taxation regimes have been subject to development and clarification over long periods.

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

Note 16. Commitments and contingencies (continued)

Litigation and claims

On November 27, 2001, Archangel Diamond Corporation ("ADC"), a Canadian diamond development company, filed a lawsuit in the Denver District Court, Colorado against OAO Arkhangelskgeoldobycha ("AGD"), a Group company, and the Company (together the "Defendants"). ADC alleged that the Defendants interfered with the transfer of a diamond exploration license to Almazny Bereg, a joint venture between ADC and AGD. ADC claimed compensatory damages of $1.2 billion and punitive damages of $3.6 billion. On October 15, 2002, the District Court dismissed the lawsuit for lack of personal jurisdiction. This ruling was upheld by the Colorado Court of Appeals on March 25, 2004. On November 21, 2005, the Colorado Supreme Court affirmed the lower courts' ruling that no specific jurisdiction exists over the Defendants. By virtue of this finding, AGD (the holder of the diamond exploration license) was dismissed from the lawsuit. The Colorado Supreme Court found, however, that the trial court made a procedural error by failing to hold an evidentiary hearing before making its ruling concerning general jurisdiction regarding the Company and remanded the case to the Colorado Court of Appeals to consider whether the lawsuit should have been dismissed on alternative grounds (i.e., forum non conveniens). The Colorado Court of Appeals declined to dismiss the case based on forum non conveniens and the case was remanded to the District Court. In June 2009, three creditors of ADC filed an Involuntary Bankruptcy Petition putting ADC into bankruptcy. In November 2009, after adding a claim, ADC removed the case from the District Court to the US Bankruptcy Court. On October 28, 2010, the Bankruptcy Court granted the Company's Motion for Remand and Abstention and remanded the case to the Denver District Court. On October 20, 2011, the Denver District Court dismissed all claims in the lawsuit against the Company. ADC has filed a notice of appeal. No briefing schedule has been established. Management does not believe that the ultimate resolution of this matter will have a material adverse effect on the Group's financial condition.

On January 6, 2012, ADC filed a lawsuit in the US District Court for the District of Colorado (federal court) reasserting almost identical claims asserted in the aforementioned lawsuit and dismissed by the Denver District Court (state court) notwithstanding ADC's appeal of the state court's decision. In Federal Court case, the Company has filed a Motion to Dismiss and discovery has been stayed pending further action. Oral Argument took place in the Court of Appeals regarding the appeal of the State Court case on August 7, 2012. The Company plans to seek dismissal of the case and vigorously defend the matter. Management does not believe that the ultimate resolution of this matter will have a material adverse effect on the Group's financial condition.

The Group was involved in cost recovery disputes with the Republic of Kazakhstan. The Group's share of the claim was approximately $295 million. The settlement of this dispute was within the scope of the Settlement agreement that was signed between the consortium of investors, including the Group, and the Republic of Kazakhstan. The agreement sets forth transferring a 10% interest in Karachaganak Petroleum Operating to state-owned KazMunayGas (this assigned interest is to be proportionally distributed among all participants of the project), as well as withdrawal of all lawsuits and settlement of tax and customs claims and was exercised on June 28, 2012.

The Group is involved in various other claims and legal proceedings arising in the normal course of business. While these claims may seek substantial damages against the Group and are subject to uncertainty inherent in any litigation, management does not believe that the ultimate resolution of such matters will have a material adverse impact on the Group's operating results or financial condition.

Note 17. Related party transactions

In the rapidly developing business environment in the Russian Federation, companies and individuals have frequently used nominees and other forms of intermediary companies in transactions. The senior management of the Company believes that the Group has appropriate procedures in place to identify and properly disclose transactions with related parties in this environment and has disclosed all of the relationships identified which it deemed to be significant. Related party sales and purchases of oil and oil products were primarily to and from affiliated companies. Related party processing services were provided by affiliated refineries.

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

Sales of oil and oil products to related parties were $314 million, $430 million, $610 million and $686 million during the three months ended June 30, 2012 and 2011 and during the six months ended June 30, 2012 and 2011, respectively.

Other sales to related parties were $12 million, $13 million, $27 million and $27 million during the three months ended June 30, 2012 and 2011 and during the six months ended June 30, 2012 and 2011, respectively.

Purchases of oil and oil products from related parties were $109 million, $126 million, $248 million and $205 million during the three months ended June 30, 2012 and 2011 and during the six months ended June 30, 2012 and 2011, respectively.

Purchases of processing services from related parties were $239 million, $267 million, $478 million and $434 million during the three months ended June 30, 2012 and 2011 and during the six months ended June 30, 2012 and 2011, respectively.

Other purchases from related parties were $19 million, $14 million, $33 million and $28 million during the three months ended June 30, 2012 and 2011 and during the six months ended June 30, 2012 and 2011, respectively.

Amounts receivable from related parties, including short-term loans and advances, were $505 million and $339 million as of June 30, 2012 and December 31, 2011, respectively. Amounts payable to related parties were $255 million and $115 million as of June 30, 2012 and December 31, 2011, respectively.

Note 18. Compensation plan

Since December 2009, the Company has a compensation plan to certain members of management for the period from 2010 to 2012, which is based on assigned shares and provides compensation consisting of two parts. The first part represents annual bonuses that are based on the number of assigned shares and the amount of dividend per share. The payment of these bonuses is contingent on the Group meeting certain financial KPIs in each financial year. The second part is based upon the Company's common stock appreciation from 2010 to 2012, with rights vesting after the date of the compensation plan's termination. The number of assigned shares is approximately 17.3 million shares.

For the first part of the share plan the Group recognizes a liability based on expected dividends and the number of assigned shares.

The second part of the share plan is classified as equity settled. The grant date fair value of the plan was estimated at $295 million. The fair value was estimated using the Black-Scholes-Merton option-pricing model, assuming a risk-free interest rate of 8.0% per annum, an expected dividend yield of 3.09% per annum, an expected term of three years and a volatility factor of 34.86%. The expected volatility factor was estimated based on the historical volatility of the Company's shares for the previous five year period up to January 2010.

Note 18. Compensation plan (continued)

As of June 30, 2012, there was $49 million of total unrecognized compensation cost related to unvested benefits. This cost is expected to be recognized periodically by the Group up to December 2012.

Related to these plans the Group recorded $46 million, $39 million, $79 million and $71 million of compensation expenses during the three months ended June 30, 2012 and 2011 and during the six months ended June 30, 2012 and 2011, respectively, of which $24 million during the three months ended June 30, 2012 and 2011 and $49 million during the six months ended June 30, 2012 and 2011 are recognized as an increase in additional paid-in capital, respectively. As of June 30, 2012 and December 31, 2011, $39 million and $28 million related to these plans are included in "Other current liabilities" in the consolidated balance sheets, respectively. The total recognized tax benefit related to these accruals during the three months ended June 30, 2012 and 2011 and during the six months ended June 30, 2012 and 2011, is $9 million, $8 million, $16 million and $14 million, respectively.

Note 19. Segment information

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

The Group has the following operating segments – exploration and production; refining, marketing and distribution; chemicals; power generation and other business segments. These segments have been determined based on the nature of their operations. Management on a regular basis assesses the performance of these operating segments. The exploration and production segment explores for, develops and produces primarily crude oil. The refining, marketing and distribution segment processes crude oil into refined products and purchases, sells and transports crude oil and refined petroleum products. The chemicals segment refines and sells chemical products. The power generation segment produces steam and electricity, distributes them and provides related services. The activities of the other business operating segment include businesses beyond the Group's traditional operations.

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

Operating segments

For the three months ended June 30, 2012

	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	806	30,961	336	253	41	-	32,397
Inter-segment	9,894	411	81	368	728	(11,482)	-
Total sales	10,700	31,372	417	621	769	(11,482)	32,397
Operating expenses	1,286	900	114	436	579	(988)	2,327
Depreciation, depletion and amortization	729	320	18	62	29	19	1,177
Interest expense	214	180	10	13	138	(395)	160
Income tax expense	654	324	21	24	34	116	1,173
Net income (loss)	1,593	(365)	(147)	(44)	(304)	285	1,018
Total assets	61,228	67,263	1,505	4,340	17,491	(58,939)	92,888
Capital expenditures	2,313	390	24	167	57	-	2,951

Note 19. Segment information (continued)

For the three months ended June 30, 2011

	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	885	33,092	543	364	28	-	34,912
Inter-segment	10,299	509	180	390	611	(11,989)	-
Total sales	11,184	33,601	723	754	639	(11,989)	34,912
Operating expenses	1,114	865	88	573	511	(711)	2,440
Depreciation, depletion and amortization	703	300	15	62	33	36	1,149
Interest expense	189	189	4	12	126	(343)	177
Income tax expense	466	258	14	(7)	-	83	814
Net income (loss)	1,583	1,500	28	(108)	(43)	291	3,251
Total assets	58,683	62,039	1,477	4,294	21,044	(55,488)	92,049
Capital expenditures	1,531	271	14	28	48	-	1,892

For the six months ended June 30, 2012

	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	1,736	64,518	645	695	64	-	67,658
Inter-segment	21,811	826	179	751	1,286	(24,853)	-
Total sales	23,547	65,344	824	1,446	1,350	(24,853)	67,658
Operating expenses	2,527	1,710	216	910	1,015	(1,836)	4,542
Depreciation, depletion and amortization	1,418	644	35	124	61	(10)	2,272
Interest expense	422	393	19	28	275	(816)	321
Income tax expense	1,031	355	31	27	41	55	1,540
Net income (loss)	4,404	808	(181)	(106)	(293)	175	4,807
Total assets	61,228	67,263	1,505	4,340	17,491	(58,939)	92,888
Capital expenditures	4,315	741	34	224	99	-	5,413

For the six months ended June 30, 2011

	Exploration and production	Refining, marketing and distribution	Chemicals	Power generation	Other	Elimination	Consolidated
Sales							
Third parties	1,785	60,748	1,038	916	51	-	64,538
Inter-segment	20,358	893	306	798	1,125	(23,480)	-
Total sales	22,143	61,641	1,344	1,714	1,176	(23,480)	64,538
Operating expenses	2,112	1,988	189	1,152	911	(1,774)	4,578
Depreciation, depletion and amortization	1,372	609	30	125	67	5	2,208
Interest expense	368	370	8	24	248	(668)	350
Income tax expense	1,049	343	25	(4)	7	33	1,453
Net income (loss)	3,889	2,650	83	(83)	79	150	6,768
Total assets	58,683	62,039	1,477	4,294	21,044	(55,488)	92,049
Capital expenditures	2,924	498	28	78	86	-	3,614

Note 19. Segment information (continued)

Geographical segments

	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Sales of crude oil within Russia	264	420	647	843
Export of crude oil and sales of oil of foreign subsidiaries	6,226	7,879	13,531	15,002
Sales of refined products within Russia	3,953	3,839	7,578	6,867
Export of refined products and sales of refined products of foreign subsidiaries	20,063	20,707	41,988	37,700
Sales of chemicals within Russia	66	264	118	503
Export of chemicals and sales of chemicals of foreign subsidiaries	268	295	544	572
Other sales within Russia	711	799	1,595	1,747
Other export sales and other sales of foreign subsidiaries	846	709	1,657	1,304
Total sales	**32,397**	**34,912**	**67,658**	**64,538**

For the three months ended June 30, 2012

	Russia	International	Elimination	Consolidated
Sales				
Third parties	5,972	26,425	-	32,397
Inter-segment	9,307	34	(9,341)	-
Total sales	15,279	26,459	(9,341)	32,397
Operating expenses	1,790	548	(11)	2,327
Depletion, depreciation and amortization	972	205	-	1,177
Interest expense	74	127	(41)	160
Income tax expense	820	255	98	1,173
Net income	661	55	302	1,018
Total assets	77,022	33,206	(17,340)	92,888
Capital expenditures	2,396	555	-	2,951

For the three months ended June 30, 2011

	Russia	International	Elimination	Consolidated
Sales				
Third parties	6,325	28,587	-	34,912
Inter-segment	10,879	16	(10,895)	-
Total sales	17,204	28,603	(10,895)	34,912
Operating expenses	1,670	556	214	2,440
Depletion, depreciation and amortization	928	190	31	1,149
Interest expense	87	120	(30)	177
Income tax expense	508	196	110	814
Net income	2,641	314	296	3,251
Total assets	72,183	34,439	(14,573)	92,049
Capital expenditures	1,551	341	-	1,892

Note 19. Segment information (continued)

For the six months ended June 30, 2012

	Russia	International	Elimination	Consolidated
Sales				
Third parties	11,921	55,737	-	67,658
Inter-segment	20,317	49	(20,366)	-
Total sales	32,238	55,786	(20,366)	67,658
Operating expenses	3,486	1,078	(22)	4,542
Depletion, depreciation and amortization	1,857	415	-	2,272
Interest expense	150	252	(81)	321
Income tax expense	1,134	368	38	1,540
Net income	4,185	430	192	4,807
Total assets	77,022	33,206	(17,340)	92,888
Capital expenditures	4,298	1,115	-	5,413

For the six months ended June 30, 2011

	Russia	International	Elimination	Consolidated
Sales				
Third parties	11,819	52,719	-	64,538
Inter-segment	20,214	27	(20,241)	-
Total sales	32,033	52,746	(20,241)	64,538
Operating expenses	3,596	1,017	(35)	4,578
Depletion, depreciation and amortization	1,821	387	-	2,208
Interest expense	170	235	(55)	350
Income tax expense	1,159	282	12	1,453
Net income	6,064	544	160	6,768
Total assets	72,183	34,439	(14,573)	92,049
Capital expenditures	2,958	656	-	3,614

The Group's international sales to third parties include sales in Switzerland of $15,731 million, $17,290 million, $33,486 million and $32,029 million for the three months ended June 30, 2012 and 2011 and for the six months ended June 30, 2012 and 2011, respectively. The Group's international sales to third parties include sales in the USA of $2,716 million, $2,628 million, $5,748 million and $4,680 million for the three months ended June 30, 2012 and 2011 and for the six months ended June 30, 2012 and 2011, respectively. These amounts are attributed to individual countries based on the jurisdiction of subsidiaries making the sale.

Note 20. Subsequent events

In accordance with the requirements of Topic 855, *"Subsequent events,"* of the Codification, the Group evaluated subsequent events through the date the consolidated financial statements were available to be issued. Therefore subsequent events were evaluated by the Group up to August 27, 2012.

On August 22, 2012, the Group acquired ConocoPhillips' investments in NMNG and certain related assets for approximately $0.6 billion. ConocoPhillips group owned 30% in NMNG. The acquisition brings the Group's total ownership interest in NMNG to 100%.