

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

The following report contains a discussion and analysis of the financial condition of OAO LUKOIL as of September 30, 2011 and the results of its operations for the three and nine month periods ended September 30, 2011 and 2010, and significant factors that may affect its future performance. It should be read in conjunction with our interim US GAAP consolidated financial statements and notes thereto.

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

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

Key financial and operational results

	3 rd quarter of		Change,	9 months of		Change,
	2011	2010	%	2011	2010	%
Sales (millions of US dollars).....	34,563	26,517	30.3	99,101	76,272	29.9
Net income attributable to OAO LUKOIL (millions of US dollars).....	2,244	2,818	(20.4)	9,012	6,820	32.1
EBITDA (millions of US dollars).....	4,628	4,552	1.7	15,316	11,985	27.8
Taxes other than income taxes, excise and export tariffs (millions of US dollars)	(9,570)	(6,905)	38.6	(26,330)	(20,594)	27.9
Earning per share of common stock attributable to OAO LUKOIL (US dollars):						
Basic	2.88	3.46	(16.7)	11.55	8.16	41.6
Diluted	2.83	3.46	(18.3)	11.31	8.16	38.7
Hydrocarbon production by the Group including our share in equity affiliates (thousands of BOE) .	193,857	204,663	(5.3)	585,125	614,036	(4.7)
Crude oil production by the Group including our share in equity affiliates (thousands of tonnes)	22,719	24,130	(5.8)	68,290	72,270	(5.5)
Gas available for sale produced by the Group including our share in equity affiliates (millions of cubic meters).....	4,438	4,547	(2.4)	13,756	13,789	(0.2)
Refined products produced by the Group including our share in equity affiliates (thousands of tonnes).....	16,115	16,742	(3.7)	46,960	47,919	(2.0)

During the nine months of 2011, our net income was \$9,012 million, which is \$2,192 million, or 32.1%, more than in the same period of 2010. At the same time, our net income for the third quarter of 2011 amounted to \$2,244 million, which is \$574 million, or 20.4%, less than in the third quarter of 2010.

The increase in our net income was mainly due to a sharp increase in hydrocarbon prices in 2011, compared to the previous year. At the same time, our results were affected by an increasing tax burden and the appreciation of the Russian ruble. Our net income for the third quarter of 2011 was affected by accrual of income tax expense related to currency translation gains, reported by Russian subsidiaries, as well as by significant dry hole costs write-offs. Whereas our income for the third quarter of 2010 was supported by a \$438 million gain from a successful completion of the legal dispute regarding one of our joint ventures in Kazakhstan.

Business overview

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

OAO LUKOIL was established in accordance with Presidential Decree 1403, issued on November 17, 1992. Under this decree, on April 5, 1993, the Government of the Russian Federation transferred to the Company 51% of the voting shares of fifteen enterprises. Under Government Resolution 861 issued on September 1, 1995, a further nine enterprises were transferred to the Group during 1995. Since 1995, the Group has carried out a share exchange program to increase its shareholding in each of 24 founding subsidiaries to 100%. From formation, the Group has expanded substantially through consolidation of interests, acquisition of new companies and establishment of new businesses. Now LUKOIL is a global energy company operating through its subsidiaries in 37 countries on four continents.

LUKOIL is one of the world's largest energy companies in terms of hydrocarbon reserves that amounted to 17.3 billion BOE as of January 1, 2011 and comprised of 13.3 billion BOE of crude oil and 23.6 trillion cubic feet of gas.

Our operations are divided into four main business segments:

- **Exploration and Production** – which includes our exploration, development and production operations relating to crude oil and natural gas. These activities are primarily located within Russia, with additional activities in Azerbaijan, Kazakhstan, Uzbekistan, the Middle East, South America, and Northern and Western Africa.
- **Refining, Marketing and Distribution** – which includes refining and transport operations, marketing and trading of crude oil, natural gas and refined products.
- **Chemicals** – which includes processing and trading of petrochemical products.
- **Power generation** – which includes generation, transportation and sales of electricity, heat and related services.

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

Changes in the Group structure

In April 2011, LUKOIL and OAO ANK Bashneft (“Bashneft”) signed an agreement to establish a joint venture and to stipulate conditions for the development of two fields named after R. Trebs and A. Titov. According to the agreement, OAO LUKOIL will purchase 25.1% of a Bashneft subsidiary for approximately \$169 million, while the license and subsoil use rights for R.Trebs and A.Titov fields will be re-issued in favor of this subsidiary. In its turn, the joint venture will purchase from the Group 29 exploration wells located in the license area. The agreement also envisages the exploitation of the Group’s infrastructure, including the oil export terminal in Varandey and the energy centre of the Yuzhnoye Khylichuyu field. The total recoverable oil reserves located within the license areas of R.Trebs and A.Titov fields are 140.1 million tonnes.

In April 2011, the Group acquired an 11% stake in the joint venture operating the ISAB refining complex (“ISAB”) for €241 million (approximately \$342 million) and thus increased the Group’s ownership in it from 49% to 60%. This was a partial exercise of ERG S.p.A. (“ERG”) option to sell its stake in the joint venture, established in 2008. According to the agreement ERG has a put option to sell its stake in full.

In January 2010, the Company signed an agreement to develop the West Qurna-2 field located in the south of Iraq. The parties to the agreement are the Iraqi state-owned South Oil Company and the contracting consortium formed by the Iraqi state-owned North Oil Company, the Company and Norway's Statoil ASA. The Company's share in the project is 56.25%. The West Qurna-2 field has recoverable crude oil reserves of about 12.9 billion barrels.

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

Operational highlights

Hydrocarbon production

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

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

	3 rd quarter of		9 months of	
	2011	2010	2011	2010
	(thousand BOE per day)			
Daily production of hydrocarbons, including the Company's share in equity affiliates, including:	2,107	2,225	2,143	2,249
- crude oil	1,823	1,934	1,847	1,952
- natural and petroleum gas ⁽¹⁾	284	291	296	297
	(US dollar per BOE)			
Hydrocarbon extraction expenses.....	4.76	4.08	4.74	4.04
- in Russia	4.73	4.03	4.74	4.04
- outside Russia	5.24	4.85	4.67	4.00
	(millions of US dollars)			
Hydrocarbon extraction expenses.....	889	804	2,666	2,388
- in Russia	828	747	2,495	2,238
- outside Russia	61	57	171	150
Exploration expenses.....	196	29	309	175
- in Russia	18	20	73	70
- outside Russia	178	9	236	105
Mineral extraction tax	3,122	1,907	8,779	5,664
- in Russia	3,094	1,888	8,706	5,611
- outside Russia	28	19	73	53

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

Crude oil production. In the nine months of 2011, our daily crude oil production decreased to 1,847 thousand BOE, or by 5.4%, compared to the same period of 2010. We produced (including the Company's share in equity affiliates) 504.2 million barrels, or 68.3 million tonnes.

The following table represents our crude oil production in the nine months of 2011 and 2010 by major regions.

	Change to 2010				
(thousands of tonnes)	9 months of 2011	Total, %	Change in structure	Organic change	9 months of 2010
Western Siberia.....	36,756	(4.0)	—	(1,517)	38,273
Timan-Pechora.....	13,467	(16.8)	—	(2,718)	16,185
Ural region.....	9,520	3.1	—	287	9,233
Volga region.....	2,362	8.6	—	188	2,174
Other in Russia.....	1,467	(4.5)	—	(69)	1,536
Crude oil produced in Russia.....	63,572	(5.7)	—	(3,829)	67,401
Crude oil produced internationally.....	2,554	0.1	—	2	2,552
Total crude oil produced by consolidated subsidiaries	66,126	(5.5)	—	(3,827)	69,953
Our share in crude oil produced by equity affiliates:					
in Russia	265	6.4	—	16	249
outside Russia	1,899	(8.2)	—	(169)	2,068
Total crude oil produced	68,290	(5.5)	—	(3,980)	72,270

The main oil producing region for the Company is Western Siberia where we produced 55.6% of our crude oil in the nine months of 2011 (54.7% in the nine months of 2010). In 2011, the Western Siberian producing assets continued to mature resulting in a production decline and water cut increase. The Company undertakes efforts to stabilize production in the region.

The main reason for the production decrease in Timan-Pechora was a decrease in wells' flow rates as a result of the water cut growth and the decrease of recoverable reserves related to reconsideration of the geological model of the Yuzhnoye Khylychuyu oilfield.

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

	3 rd quarter of			
	2011	2011	2010	2010
	(thousand of barrels)	(thousand of tonnes)	(thousand of barrels)	(thousand of tonnes)
Crude oil purchases in Russia	1,122	153	1,056	144
Crude oil purchases internationally	47,095	6,425	40,117	5,473
Total crude oil purchased	48,217	6,578	41,173	5,617

	9 months of			
	2011	2011	2010	2010
	(thousand of barrels)	(thousand of tonnes)	(thousand of barrels)	(thousand of tonnes)
Crude oil purchases in Russia	2,016	275	1,437	196
Crude oil purchases internationally	110,668	15,098	117,727	16,061
Total crude oil purchased	112,684	15,373	119,164	16,257

Significant part of our crude oil purchases is for processing. In the nine months of 2011, we purchased 9,823 thousand tonnes of crude oil to process at our and at third party refineries (including 3,258 thousand tonnes at ISAB and 1,178 thousand tonnes at TRN), compared to 8,629 thousand tonnes in the nine months of 2010 (including 3,279 thousand tonnes at ISAB and 1,542 thousand tonnes at TRN). Our purchases for trading significantly decreased.

Gas production. In the nine months of 2011, we produced 13,756 million cubic meters of gas available for sale (including our share in equity affiliates), that is approximately on the same level as in the nine months of 2010.

Our major gas production field is the Nakhodkinskoe field, where we produced 6,192 million cubic meters of natural gas in the nine months of 2011 (6,072 million cubic meters in the nine months of 2010). Our international natural gas production decreased by 5.2% following a decrease of demand from our main customers.

Refining, marketing and trading

Refining. We own and operate four refineries located in European Russia and three refineries located outside of Russia – in Bulgaria, Ukraine and Romania. Moreover, we have a 60% stake in the ISAB refinery complex in Italy (49% before April 1, 2011) and a 45% interest in the TRN refinery in the Netherlands.

Compared to the nine months of 2010, production at our consolidated refineries decreased by 3.7%. Russian refineries decreased their production by 0.5%, while international refineries' production decreased by 17.9% as a result of the shutdown of the Odessa refinery. The production of our affiliated refineries ISAB and TRN increased by 6.0% resulting from the increase of Group's share in the ISAB refinery.

We invested, and continue to invest, significant resources in our refineries aiming at taking the leading position in Russia in producing ecological fuel of high quality standards. Thus, in December 2010, we launched a catalytic cracking complex at our refinery in Nizhny Novgorod that enabled us to start production of gasoline fully compliant to the Euro-4 quality standard. Related investments amounted to approximately \$1 billion.

In Russia, LUKOIL holds the leading position in production and sales of European standards motor fuel being ahead of the official terms of their obligatory implementation in the country. At our Russian refineries we produced 6,599 and 6,456 thousand tonnes of Euro-4 and Euro-5 diesel fuel and 4,733 and 4,074 thousand tonnes of Euro-3 and Euro-4 gasoline in the nine months of 2011 and 2010, respectively. We commenced production of Euro-4 gasoline in the end of 2010.

The share of Euro-3 and Euro-4 gasoline exceeds 90% and the share of Euro-4 and Euro-5 diesel exceeds 70% of our total domestic production. We have technological capacity to produce all our gasoline in compliance with the Euro-4 standards. Production of lower quality gasoline is stipulated by the necessity to supply the federal customers. We will be able to increase the share of Euro-4 and Euro-5 diesel to 97% of our total domestic diesel production after the launch of the new fuel hydrorefining unit at our refinery in Volgograd scheduled for the second half of 2012.

Along with our own production of refined products we can refine crude oil at third party refineries depending on market conditions and other factors. In the nine months of 2011, we only processed our crude oil at a third party refinery in Kazakhstan.

The following table summarizes key figures for our refining activities.

	3 rd quarter of		9 months of	
	2011	2010	2011	2010
	(millions of US dollars)			
Refining expenses at the Group refineries.....	383	269	1,069	801
- in Russia	307	189	821	570
- outside Russia	76	80	248	231
Refining expenses at ISAB and TRN.....	226	182	648	531
Refining expenses at third party refineries	2	1	7	3
Capital expenditures.....	225	177	524	513
- in Russia	193	147	407	385
- outside Russia	32	30	117	128
	(thousand barrels per day)			
Refinery throughput at the Group refineries	1,084	1,142	1,078	1,106
- in Russia	912	936	912	911
- outside Russia	172	206	166	195
Refinery throughput at ISAB and TRN ^{(1) (2)}	247	220	230	221
Refinery throughput at third party refineries	6	4	7	1
Total refinery throughput	1,337	1,366	1,315	1,328
	(thousand of tonnes)			
Refined products produced at the Group refineries.....	12,962	13,970	38,247	39,701
- in Russia	10,934	11,305	32,401	32,579
- outside Russia	2,028	2,665	5,846	7,122
Production of ISAB and TRN ⁽¹⁾	3,153	2,772	8,713	8,218
Refined products produced at third party refineries	72	47	241	51
Total refined products produced	16,187	16,789	47,201	47,970

⁽¹⁾ Group's share.

⁽²⁾ Including refined product processed.

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

The Group retails its refined products in 27 countries through nearly 5.6 thousand petrol stations. Most of the stations operate under the LUKOIL brand. The decrease in number of petrol stations compared to the beginning of the year (over 6 thousand stations) was due to restructuring of our retail network in the USA.

The table below summarizes figures for our trading activities.

	3 rd quarter of		9 months of	
	2011	2010	2011	2010
	(thousand of tonnes)			
Retail sales	4,204	3,847	11,152	10,615
Wholesale sales	21,932	23,543	65,257	67,784
Total refined products sales	26,136	27,390	76,409	78,399
Refined products purchased in Russia.....	643	519	1,539	1,374
Refined products purchased internationally	10,295	10,811	32,755	33,826
Total refined products purchased.....	10,938	11,330	34,294	35,200

Exports of crude oil and refined products from Russia. The volumes of crude oil exported from Russia by our subsidiaries are summarized as follows:

	3 rd quarter of			
	2011		2010	
	(thousand of barrels)	(thousand of tonnes)	(thousand of barrels)	(thousand of tonnes)
Exports of crude oil using Transneft export routes	54,059	7,375	55,546	7,578
Exports of crude oil bypassing Transneft.....	9,917	1,353	18,288	2,495
Total crude oil exports	63,976	8,728	73,834	10,073

	9 months of			
	2011		2010	
	(thousand of barrels)	(thousand of tonnes)	(thousand of barrels)	(thousand of tonnes)
Exports of crude oil using Transneft export routes	158,556	21,631	172,196	23,492
Exports of crude oil bypassing Transneft.....	31,145	4,249	51,207	6,986
Total crude oil exports	189,701	25,880	223,403	30,478

In the nine months of 2011, our export of crude oil from Russia was 15.1% less than in the same period of 2010, and we exported 40.7% of our total domestic crude oil production (45.2% in the nine months of 2010).

The reduction of our export was mainly caused by a decline in production (mainly from Yuzhnoye Khylichuyu oilfield) as well as by an increase of domestic crude oil sales.

In the first nine months of 2011 and 2010, almost all of the volume of crude oil exported bypassing Transneft was routed through our own export infrastructure.

In the nine months of 2011, we exported from Russia 18.7 million tonnes of refined products, a decrease of 4.2%, compared to the nine months of 2010, as a result of the increase of domestic sales volumes. Primarily we export from Russia diesel fuel, fuel oil and gasoil. These products account for approximately 89% of our refined products export volumes.

In the nine months of 2011, our revenue from export of crude oil and refined products from Russia both to Group companies and third parties amounted to \$18,607 million and \$13,887 million, respectively (\$16,084 million for crude oil and \$10,445 million for refined products in the nine months of 2010).

Power generation

In the nine months of 2011, we continued to develop the new power generation sector of our business as part of our strategic development program. This new sector encompasses all aspects of the power generation business, from generation to transmission and sale of heat and electrical power. Our power generation business sector now includes OOO LUKOIL-Kubanenergo, OOO LUKOIL-Astrakhanenergo, OOO LUKOIL-Volgogradenergo, OOO LUKOIL-Rostovenergo, OOO LUKOIL-TTK (all spun off from OOO UGK TKG-8), OOO LUKOIL-Ecoenergo (former OOO UGK TKG-8), our own power generating facilities at our oil and gas fields and power generators in Bulgaria, Romania and Ukraine.

Main macroeconomic factors affecting our results of operations

Changes in the price of crude oil and refined products

The price at which we sell crude oil and refined products is the primary driver of the Group's revenues. During the nine months of 2011, the Brent crude oil price fluctuated between \$93 and \$126 per barrel and reached its peak of \$126.7 in the beginning of April of 2011.

The crude oil price growth that started in December 2010 and continued during the first half of 2011 was caused mainly by speculative factors as a consequence of political instability in the Middle East and Northern Africa. In the third quarter of 2011, crude oil prices stabilized, however financial tensions in Europe and the USA caused some price correction.

Substantially all the crude oil the Group exports is Urals blend. The following table shows the average crude oil and refined product prices in the respective periods of 2011 and 2010.

	3 rd quarter of		Change,	9 months of		Change,
	2011	2010	%	2011	2010	%
(in US dollars per barrel, except for figures in percent)						
Brent crude.....	113.41	76.86	47.6	111.89	77.14	45.1
Urals crude (CIF Mediterranean) ⁽¹⁾	111.43	75.55	47.5	109.24	75.92	43.9
Urals crude (CIF Rotterdam) ⁽¹⁾	111.52	75.58	47.6	109.22	75.92	43.9
(in US dollars per metric tonne, except for figures in percent)						
Fuel oil 3.5% (FOB Rotterdam).....	630.62	425.47	48.2	604.56	434.12	39.3
Diesel fuel 10 ppm (FOB Rotterdam)	967.33	667.67	44.9	953.94	665.28	43.4
High-octane gasoline (FOB Rotterdam).....	1,026.87	694.38	47.9	1,001.82	717.42	39.6

Source: Platts.

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

Domestic crude oil and refined products prices

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

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

The table below represents average domestic wholesale prices of refined products in the respective periods of 2011 and 2010.

	3 rd quarter of		Change,	9 months of		Change,
	2011	2010	%	2011	2010	%
(in US dollars per metric tonne, except for figures in percent)						
Fuel oil.....	333.73	244.71	36.4	321.90	230.71	39.5
Diesel fuel	700.23	508.83	37.6	740.35	534.03	38.6
High-octane gasoline (Regular)	929.99	732.28	27.0	870.58	705.97	23.3
High-octane gasoline (Premium)	977.89	775.18	26.2	911.30	732.11	24.5

Source: InfoTEK (excluding VAT).

Changes in the US dollar-ruble exchange rate and inflation

A substantial part of our revenue is either denominated in US dollars or is correlated to some extent with US dollar crude oil prices, while most of our costs in the Russian Federation are settled in Russian rubles. Therefore, ruble inflation and movements of exchange rates can significantly affect the results of our operations. In particular, the appreciation of the ruble against the US dollar generally causes our costs to increase in US dollar terms, and vice versa. The devaluation of the purchasing power of the US dollar in the Russian Federation calculated on the basis of the ruble-dollar exchange rates and the level of inflation in Russia was 14.6% in the nine months of 2011, compared to the nine months of 2010. At the same time, in the third quarter of 2011, the Russian ruble depreciated by 3.5%, compared to the second quarter of 2011, that significantly affected the financial results of the Group.

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

	3 rd quarter of		9 months of	
	2011	2010	2011	2010
Ruble inflation (CPI), %	(0.3)	1.7	4.7	6.2
Change of the ruble-dollar exchange rate, %	(13.5)	2.5	(4.6)	(0.5)
Average exchange rate for the period (ruble to US dollar)	29.05	30.62	28.77	30.25
Exchange rate at the end of the period (ruble to US dollar)	31.88	30.40	—	—

Tax burden

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

		3 rd quarter of		Change,
		2011 ⁽¹⁾	2010 ⁽¹⁾	%
Export tariffs on crude oil	\$/tonne	442.45	261.91	68.9
Export tariffs on refined products				
Middle distillates (jet fuel), diesel fuel and gasoils	\$/tonne	296.42	188.72	57.1
Light distillates				
gasoline	\$/tonne	398.18	188.72	111.0
straight-run gasoline	\$/tonne	398.18	188.72	111.0
Liquid fuels (fuel oil)	\$/tonne	206.59	101.69	103.2
Mineral extraction tax				
Crude oil	RUR/tonne	4,544.85	2,987.65	52.1
Natural gas	RUR/1,000 m ³	237.00	147.00	61.2

⁽¹⁾ Average values.

		9 months of		Change,
		2011 ⁽¹⁾	2010 ⁽¹⁾	%
Export tariffs on crude oil	\$/tonne	411.01	269.04	52.8
Export tariffs on refined products				
Middle distillates (jet fuel), diesel fuel and gasoils	\$/tonne	276.91	193.57	43.1
Light distillates				
gasoline	\$/tonne	334.72	193.57	72.9
straight-run gasoline	\$/tonne	322.87	193.57	66.8
Liquid fuels (fuel oil)	\$/tonne	188.92	104.28	81.2
Mineral extraction tax				
Crude oil	RUR/tonne	4,368.40	2,948.68	48.1
Natural gas	RUR/1,000 m ³	237.00	147.00	61.2

⁽¹⁾ Average values.

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

		3 rd quarter of 2011 ⁽¹⁾	2010 ⁽¹⁾	Change, %
Mineral extraction tax				
Crude oil	\$/tonne	156.47	97.57	60.4
Natural gas	\$/1,000 m ³	8.16	4.80	70.0

⁽¹⁾ Average values.

		9 months of 2011 ⁽¹⁾	2010 ⁽¹⁾	Change, %
Mineral extraction tax				
Crude oil	\$/tonne	151.86	97.46	55.8
Natural gas	\$/1,000 m ³	8.24	4.86	69.6

⁽¹⁾ Average values.

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

Crude oil extraction tax rate. The base rate is 419 rubles per metric tonne extracted and it is adjusted depending on the international market price of Urals blend and the ruble exchange rate. The tax rate is zero when the average Urals blend international market price for a tax period is less than or equal to \$15.00 per barrel. Each \$1.00 per barrel increase in the international Urals blend price over the threshold (\$15.00 per barrel) results in an increase of the tax rate by \$1.61 per tonne extracted (or \$0.22 per barrel extracted using a conversion factor of 7.33).

The base rate for 2012 and 2013 is currently set at 446 rubles and 470 rubles per metric tonne extracted, respectively. However, the rate may be amended by the authorities later on.

The crude oil extraction tax rate varies depending on the development and depletion of a particular oilfield. The tax rate is zero for extra-heavy crude oil and for crude oil produced in certain regions of Eastern Siberia, the Caspian Sea and the Nenetsky Autonomous District, depending on the period and volume of production.

The Group produced crude oil from certain oilfields in the Caspian Sea and the Nenetsky Autonomous District and benefited from the application of zero tax rate. However, in early December 2010, we exceeded the accumulated production limit of 15 million tonnes at Yuzhnoye Khylichuyu oilfield eligible for the incentive. Thus, starting from December 2010, we pay mineral extraction tax at a regular rate at this field.

Natural gas extraction tax rate. The mineral extraction tax on natural gas production is calculated using a flat rate. During the period from January 1, 2006 until December 31, 2010, the rate of 147 rubles per thousand cubic meters of natural gas extracted was in effect. However, the rate was raised to 237 rubles per thousand cubic meters on January 1, 2011.

Crude oil export duty rate is calculated on a progressive scale. The rate is zero when the average Urals blend international market price is less than or equal to approximately \$15.00 per barrel (\$109.50 per metric tonne). If the Urals blend price is between \$15.00 and \$20.00 per barrel (\$146.00 per metric tonne), each \$1.00 per barrel increase in the Urals blend price over \$15.00 results in an increase of the crude oil export duty rate by \$0.35 per barrel exported. If the Urals blend price is between \$20.00 and \$25.00 per barrel (\$182.50 per metric tonne), each \$1.00 per barrel increase in the Urals blend price over \$20.00 results in an increase of the crude oil export duty rate by \$0.45 per barrel exported. Each \$1.00 per barrel increase in the Urals blend price over \$25.00 per barrel results in an increase of the crude oil export duty rate no more than by \$0.65 per barrel exported. Starting from October 1, 2011, the maximum increase of export duty rate is \$0.60 per barrel for each \$1.00 per barrel increase in the Urals blend price.

The crude oil export duty rate is revised monthly on the basis of the immediately preceding one-month period of crude oil price monitoring.

A special export duty regime is in place for certain greenfields. Effective from December 2010, the list of the oilfields where the reduced rate applies also includes our Yu. Korchagin and V. Filanovsky oilfields located in the Caspian Sea.

Export duty rates on refined products prior to 2011 were set by the Russian government. The rate of export duty depended on internal demand for refined products and international crude oil market conditions. Starting from 2011, export duty rates on crude oil refined products are calculated by multiplying the current export duty rate by a coefficient according to the table below.

	Before October 1 st , 2011	After October, 1 st 2011
Multiplier for:		
Light distillates (except for gasolines), middle distillates (jet fuel), diesel fuel and gasoils.....	0.670	0.660
Gasolines ⁽¹⁾	0.467	0.900
Liquid fuels (fuel oil)	0.467	0.660
Motor and other oils	0.467	0.660
Other products	0.467	0.660

⁽¹⁾ Starting from May 2011, a special gasoline export duty rate is set at 0.9.

Crude oil and refined products exported to CIS countries, other than Ukraine, are not subject to export duties.

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

Starting from 2011, excise rates on refined products in Russia were increased and tied to the ecological class of fuel. Excise tax rates for the respective periods of 2011 and 2010 are listed below:

		3 rd quarter of 2011	2010	Change, %
Gasoline				
Low-octane gasoline not compliant to Euro-3	RUR/tonne	5,995.00	2,923.00	105.1
High-octane gasoline not compliant to Euro-3.....	RUR/tonne	5,995.00	3,992.00	50.2
Euro-3	RUR/tonne	5,672.00	3,992.00	42.1
Euro-4 and -5	RUR/tonne	5,143.00	3,992.00	28.8
Diesel fuel				
Below Euro-3.....	RUR/tonne	2,753.00	1,188.00	131.7
Euro-3	RUR/tonne	2,485.00	1,188.00	109.2
Euro-4 and -5	RUR/tonne	2,247.00	1,188.00	89.1
Motor oils.....	RUR/tonne	4,681.00	3,246.10	44.2
Straight-run gasoline	RUR/tonne	6,089.00	4,290.00	41.9

		3 rd quarter of 2011	2010	Change, %
Gasoline				
Low-octane gasoline not compliant to Euro-3	\$/tonne	206.40	95.46	116.2
High-octane gasoline not compliant to Euro-3.....	\$/tonne	206.40	130.37	58.3
Euro-3	\$/tonne	195.28	130.37	49.8
Euro-4 and -5	\$/tonne	177.06	130.37	35.8
Diesel fuel				
Below Euro-3.....	\$/tonne	94.78	38.80	144.3
Euro-3	\$/tonne	85.55	38.80	120.5
Euro-4 and -5	\$/tonne	77.36	38.80	99.4
Motor oils.....	\$/tonne	161.16	106.01	52.0
Straight-run gasoline	\$/tonne	209.63	140.10	49.6

		9 months of		Change,
		2011	2010	%
Gasoline				
Low-octane gasoline not compliant to Euro-3	RUR/tonne	5,995.00	2,923.00	105.1
High-octane gasoline not compliant to Euro-3.....	RUR/tonne	5,995.00	3,992.00	50.2
Euro-3	RUR/tonne	5,672.00	3,992.00	42.1
Euro-4 and -5	RUR/tonne	5,143.00	3,992.00	28.8
Diesel fuel				
Below Euro-3.....	RUR/tonne	2,753.00	1,188.00	131.7
Euro-3	RUR/tonne	2,485.00	1,188.00	109.2
Euro-4 and -5	RUR/tonne	2,247.00	1,188.00	89.1
Motor oils.....	RUR/tonne	4,681.00	3,246.10	44.2
Straight-run gasoline	RUR/tonne	6,089.00	4,290.00	41.9

		9 months of		Change,
		2011	2010	%
Gasoline				
Low-octane gasoline not compliant to Euro-3	\$/tonne	208.40	96.62	115.7
High-octane gasoline not compliant to Euro-3.....	\$/tonne	208.40	131.95	57.9
Euro-3	\$/tonne	197.17	131.95	49.4
Euro-4 and-5	\$/tonne	178.79	131.95	35.5
Diesel fuel				
Below Euro-3.....	\$/tonne	95.70	39.27	143.7
Euro-3	\$/tonne	86.39	39.27	120.0
Euro-4 and -5	\$/tonne	78.11	39.27	98.9
Motor oils.....	\$/tonne	162.72	107.30	51.7
Straight-run gasoline	\$/tonne	211.67	141.80	49.3

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

Transportation of crude oil and refined products in Russia

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

Transportation of crude oil produced in Russia to refineries and export destinations is performed primarily through the trunk oil pipeline system of state-owned OAO AK Transneft or by railway transport.

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

In Russia, the gas is mostly sold at the wellhead and then transported through the Unified Gas Supply System ("UGSS"). The UGSS is responsible for gathering, transporting, dispatching and delivering substantially all natural gas supplies in Russia and is owned and operated by OAO Gazprom. The FST regulates natural gas transportation tariffs. We are not able to sell our gas other than through UGSS.

Three and nine months ended September 30, 2011, compared to three and nine months ended September 30, 2010

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

	3 rd quarter of		9 months of	
	2011	2010	2011	2010
	(millions of US dollars)			
Revenues				
Sales (including excise and export tariffs).....	34,563	26,517	99,101	76,272
Costs and other deductions				
Operating expenses.....	(2,280)	(2,131)	(6,858)	(6,165)
Cost of purchased crude oil, gas and products.....	(15,051)	(10,959)	(43,058)	(31,002)
Transportation expenses.....	(1,604)	(1,389)	(4,677)	(4,169)
Selling, general and administrative expenses.....	(1,043)	(902)	(2,845)	(2,557)
Depreciation, depletion and amortization.....	(1,137)	(1,054)	(3,345)	(3,114)
Taxes other than income taxes.....	(3,442)	(2,173)	(9,811)	(6,522)
Excise and export tariffs.....	(6,128)	(4,732)	(16,519)	(14,072)
Exploration expense.....	(196)	(29)	(309)	(175)
(Loss) gain on disposals and impairments of assets.....	(11)	19	(171)	29
Income from operating activities.....	3,671	3,167	11,508	8,525
Interest expense.....	(182)	(162)	(532)	(535)
Interest and dividend income.....	53	46	144	144
Equity share in income of affiliates.....	168	99	510	335
Currency translation loss.....	(154)	(59)	(312)	(101)
Other non-operating (expense) income.....	(48)	300	287	225
Income before income taxes.....	3,508	3,391	11,605	8,593
Current income taxes.....	(1,091)	(538)	(2,071)	(1,678)
Deferred income taxes.....	(27)	(26)	(500)	18
Total income tax expense.....	(1,118)	(564)	(2,571)	(1,660)
Net income.....	2,390	2,827	9,034	6,933
Net income attributable to noncontrolling interests.....	(146)	(9)	(22)	(113)
Net income attributable to OAO LUKOIL.....	2,244	2,818	9,012	6,820
Earning per share of common stock attributable to OAO LUKOIL (in US dollars):				
Basic.....	2.88	3.46	11.55	8.16
Diluted.....	2.83	3.46	11.31	8.16

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

Sales revenues

Sales breakdown	3 rd quarter of		9 months of	
	2011	2010	2011	2010
	(millions of US dollars)			
Crude oil				
Export and sales on international markets other than CIS	8,056	6,453	21,827	18,628
Export and sales to CIS.....	654	210	1,885	723
Domestic sales	366	225	1,209	706
	9,076	6,888	24,921	20,057
Refined products				
Export and sales on international markets				
Wholesale.....	16,160	12,437	48,426	36,306
Retail	3,055	2,548	8,489	7,093
Domestic sales				
Wholesale.....	2,033	1,463	5,530	3,937
Retail	2,324	1,508	5,694	4,007
	23,572	17,956	68,139	51,343
Petrochemicals				
Export and sales on international markets	277	128	849	398
Domestic sales	241	170	744	520
	518	298	1,593	918
Gas and gas products				
Export and sales on international markets	475	492	1,356	1,137
Domestic sales	261	202	732	588
	736	694	2,088	1,725
Domestic sales of energy and related services	229	295	1,137	1,025
Other				
Sales on international markets	243	218	666	701
Domestic sales	189	168	557	503
	432	386	1,223	1,204
Total sales	34,563	26,517	99,101	76,272

Sales volumes	3 rd quarter of		9 months of	
	2011	2010	2011	2010
Crude oil				
	(thousands of barrels)			
Export and sales on international markets other than CIS	71,871	85,394	199,743	248,186
Export and sales to CIS.....	12,608	5,101	35,507	17,174
Domestic sales	7,858	6,223	25,047	20,502
	92,337	96,718	260,297	285,862
Crude oil				
	(thousands of tonnes)			
Export and sales on international markets other than CIS	9,805	11,650	27,250	33,859
Export and sales to CIS.....	1,720	696	4,844	2,343
Domestic sales	1,072	849	3,417	2,797
	12,597	13,195	35,511	38,999
Refined products				
	(thousands of tonnes)			
Export and sales on international markets				
Wholesale.....	18,859	20,510	56,926	59,622
Retail	1,840	1,952	5,181	5,455
Domestic sales				
Wholesale.....	3,073	3,033	8,331	8,162
Retail	2,364	1,895	5,971	5,160
	26,136	27,390	76,409	78,399
Total sales volume of crude oil and refined products.....	38,733	40,585	111,920	117,398

Realized average sales prices		3 rd quarter of		9 months of	
		2011	2010	2011	2010
Average realized price international					
Oil (excluding CIS)	(\$/barrel)	112.09	75.57	109.28	75.06
Oil (CIS)	(\$/barrel)	51.96	41.21	53.10	42.09
Refined products					
Wholesale	(\$/tonne)	856.90	606.45	850.69	608.94
Retail.....	(\$/tonne)	1,660.38	1,305.41	1,638.55	1,300.29
Average realized price within Russia					
Oil.....	(\$/barrel)	46.67	36.11	48.28	34.43
Refined products					
Wholesale	(\$/tonne)	661.60	481.69	663.73	482.22
Retail.....	(\$/tonne)	982.81	796.48	953.57	776.59

During the third quarter of 2011, our revenues increased by \$8,046 million, or by 30.3%, compared to the same period of 2010, crude oil sales increased by \$2,188 million, or by 31.8%, refined products sales increased by \$5,616 million, or by 31.3%.

During the nine months of 2011, our revenues increased by \$22,829 million, or by 29.9%, compared to the same period of 2010. Our revenues from crude oil sales increased by \$4,864 million, or by 24.3%. Our revenues from sales of refined products increased by \$16,796 million, or by 32.7%.

The increase in sales revenue was a result of a sharp increase in hydrocarbon prices, compared to the nine months of 2010. Moreover, the appreciation of the ruble against the US dollar also increased the US dollar value of our sales revenue denominated in Russian rubles.

Sales of crude oil

Our total crude oil sales revenues increased by \$2,188 million, or by 31.8%, in the third quarter of 2011 and by \$4,864 million, or by 24.3%, in the nine months of 2011. This increase was a result of the growth of crude oil prices.

At the same time, our sales volumes decreased by 4.5%, or by 598 thousand tonnes, in the third quarter of 2011 and by 8.9%, or by 3,488 thousand tonnes, in the nine months of 2011. The reasons for this were a decrease of production and lower scale of trading operations.

Compared to 2010, we significantly increased crude oil supplies to Belarus, while sales to the far-abroad decreased correspondingly.

In the third quarter and the nine months of 2011, our revenue from export of crude oil from Russia both to the Group companies and third parties amounted to \$6,358 million and \$18,607 million, respectively.

Sales of refined products

Our revenue from the wholesale of refined products outside of Russia increased by \$3,723 million, or by 29.9%, in the third quarter of 2011 and by \$12,120 million, or by 33.4%, in the nine months of 2011, compared to the same periods of 2010. This was due to an increase in the average realized price by 41.3% in the third quarter of 2011 and by 39.7% in the nine months of 2011. At the same time, in the third quarter and in the nine months of 2011, the wholesales volumes decreased by 8.0% and by 4.5%, respectively.

Our revenue from international retail sales increased by \$507 million, or by 19.9%, in the third quarter of 2011 and by \$1,396 million, or by 19.7%, in the nine months of 2011 also due to an increase in average prices by 27.2% in the third quarter of 2011 and by 26.0% in the nine months of 2011. Retail sales volumes decreased by 112 thousand tonnes, or by 5.7%, in the third quarter of 2011 and by 274 thousand tonnes, or by 5.0%, in the nine months of 2011 following restructuring of our retail network in the USA. At the same time, this was partially compensated by increased retail sales volumes in Europe.

Our revenue from the wholesale of refined products on the domestic market increased by \$570 million, or by 39.0%, in the third quarter of 2011 and by \$1,593 million, or by 40.5%, in the nine months of 2011, mainly due to an increase in the average realized price by 37.3% and 37.6%, respectively. The increase of sales volumes was not significant in the considered periods.

Our revenue from retail sales in Russia increased by \$816 million, or by 54.1%, in the third quarter of 2011 and by \$1,687 million, or by 42.1%, in the nine months of 2011, due to an increase in prices and sales volumes.

In the third quarter and the nine months of 2011, our revenue from the export of refined products from Russia both to Group companies and third parties amounted to \$4,399 million and \$13,887 million, respectively.

Sales of petrochemical products

In the third quarter of 2011, our revenue from sales of petrochemical products increased by \$220 million, or by 73.8%, and in the nine months of 2011, our revenue increased by \$675 million, or by 73.5%, mainly as a result of an increase in international sales volumes. In the fourth quarter of 2010, we commenced production at our petrochemical plant Karpatnaftochim Ltd. in Ukraine after modernization and construction of a chlorine and caustic production line. Our realized prices increased by 7.5% and 12.8%, respectively.

Sales of gas and gas products

Sales of gas and gas refined products increased by \$42 million, or by 6.1%, in the third quarter of 2011 and by \$363 million, or by 21.0%, in the nine months of 2011.

Gas products sales revenue increased by \$124 million, or by 31.1%, in the third quarter of 2011 and by \$375 million, or by 35.7%, in the nine months of 2011 primarily as a result of an increase in sales prices. Retail gas products revenue increased to \$164 million, or by 18.8%, in the third quarter of 2011 and to \$457 million, or by 26.9%, in the nine months of 2011 due to price growth. Retail revenue represented approximately one-third of our gas products sales revenue.

Natural gas sales revenue decreased by \$87 million, or by 30.7%, in the third quarter of 2011 and by \$32 million, or by 5.0%, in the nine months of 2011. The decrease of natural gas sales revenue compared to 2010 was a result of a recognition in the third quarter of 2010 of an additional revenue of \$101 million as a result of a revision of sale prices related to the Shakh-Deniz field in Azerbaijan for 2008-2010.

Domestic sales of energy and related services

We sell substantially all our energy and related services domestically. International sales are relatively insignificant.

In the third quarter of 2011, our revenue from sales of electricity, heat and related services decreased by \$66 million, or by 22.4%, while in the nine months of 2011, this revenue increased by \$112 million, or by 10.9%. This growth was a result of an increase in tariff rates and the ruble appreciation. At the same time, in the third quarter of 2011, the revenue of our energy segment decreased significantly due to the reduction of resale operations.

Sales of other products

Other sales include transportation services, non-petroleum sales through our retail network, crude oil extraction services, rental revenue, and other revenue of our production and marketing companies from sales of goods and services not related to our primary activities.

In the third quarter of 2011, other sales increased by \$46 million, or by 11.9%, and in the nine months of 2011, other sales increased by \$19 million, or by 1.6%.

Operating expenses

Operating expenses include the following:

	3 rd quarter of		9 months of	
	2011	2010	2011	2010
	(millions of US dollars)			
Hydrocarbon extraction expenses	889	804	2,666	2,388
Own refining expenses	383	269	1,069	801
Refining expenses at third party and affiliated refineries	228	183	655	534
Expenses for crude oil transportation to refineries	267	261	807	802
Power generation and distribution expenses	108	159	477	452
Petrochemical expenses	81	58	229	138
Other operating expenses	324	397	955	1,050
Total operating expenses	2,280	2,131	6,858	6,165

The method of allocation of operating expenses in this table differs from the approach used in preparing the data for Note 19 “Segment information” to our interim consolidated financial statements. Expenditures in the segment reporting are grouped depending on the segment to which a particular company belongs. Operating expenses for the purposes of this analysis are grouped based on the nature of the costs incurred.

In the third quarter of 2011, our operating expenses increased by \$149 million, or by 7.0%, and in the nine months of 2011, operating expenses increased by \$693 million, or by 11.2%, as a result of the ruble appreciation by 14.6% and of the increase in hydrocarbon extraction expenses and refining expenses.

Hydrocarbon extraction expenses

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

In the third quarter of 2011, our extraction expenses increased by \$85 million, or by 10.6%, and in the nine months of 2011, they increased by \$278 million, or by 11.6%. Our average hydrocarbon extraction cost increased from \$4.08 per BOE in the third quarter of 2010 to \$4.76 per BOE in the third quarter of 2011, or by 16.7%, and from \$4.04 per BOE in the nine months of 2010 to \$4.74 per BOE the nine months of 2011, or by 17.3%.

The increase was mainly a result of the real ruble appreciation against the US dollar and increased expenses for power supply, repairs and labor costs.

Own refining expenses

Our own refining expenses increased by \$114 million, or by 42.4%, in the third quarter of 2011 and by \$268 million, or by 33.5%, in the nine months of 2011.

Refining expenses at our domestic refineries increased by 62.4%, or by \$118 million, in the third quarter of 2011 and by 44.0%, or by \$251 million, in the nine months of 2011. This increase was a result of an increase in consumption and cost of additives, increased power supply costs, higher expenses on repairs and the ruble appreciation against the US dollar.

Refining expenses at our international refineries decreased by 5.0%, or by \$4 million, in the third quarter of 2011 and increased by 7.4%, or by \$17 million, in the nine months of 2011. The decrease of expenses compared to the third quarter of 2010 was largely due to the shutdown of our refinery in Odessa and lower production volumes at our Bulgarian and Romanian refineries. In spite of the shutdown, there was no corresponding impact on expenses as we had to keep production facilities on line. The increase for the nine month period ended September 30, 2011 was largely due to higher power supply costs and expenses for repairs as well as additional accruals for carbon dioxide emission quotas.

Refining expenses at third party and affiliated refineries

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

In the third quarter and the nine months of 2011, refining expenses at third party and affiliated refineries increased by \$45 million and \$121 million, or by 24.6% and 22.7%, respectively. This was due to increased energy costs, appreciation of euro to the US dollar, overhauls performed at the ISAB complex in the first quarter of 2011 and the increase of our share in ISAB from 49% to 60% since April, 2011, resulting in the increase of our share of costs.

Petrochemical expenses

In the third quarter of 2011, operating expenses of our petrochemical plants increased by \$23 million, or by 39.7%, and in the nine months of 2011, these expenses increased by \$91 million, or by 65.9%, due to an increase in production volumes as a result of the commencement of production at our petrochemical plant Karpatnaftochim Ltd. in Ukraine in the fourth quarter of 2010 after modernization and construction of a chlorine and caustic production line. Additionally, the increased consumption of raw materials due to the changes in product mix and ruble appreciation contributed to the increase of expenses. Some operating expenses related to pre-start works undertaken at Karpatnaftochim Ltd. were recognized in the third quarter of 2010, therefore the increase of expenses compared to the nine months of 2010 was higher than compared to the third quarter of 2010.

Expenses for crude oil transportation to refineries

Expenses for crude oil transportation to refineries include pipeline, railway, freight and other costs related to delivery of the Group's own crude oil to refineries for further processing.

Expenses for crude oil transportation to refineries in the third quarter and in the nine months of 2011 didn't change significantly. The increase in transportation tariffs compared to 2010 was compensated for by a decrease in volumes of own supply to refineries.

Power generation and distribution expenses

Power generation and distribution expenses decreased by \$51 million, or by 32.1%, in the third quarter of 2011 as a result of decrease in the resale volumes and increased by \$25 million, or by 5.5%, in the nine months of 2011 reflecting the real ruble appreciation in Russia.

Other operating expenses

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

In the third quarter of 2011, other operating expenses decreased by \$73 million, or by 18.4%, and in the nine months of 2011, other operating expenses decreased by \$95 million, or by 9.0%. The decrease was a result of a lower volume of transportation services provided outside of Russia and the restructuring of our retail network in the USA.

Cost of purchased crude oil, gas and products

Cost of purchased crude oil, gas and products includes cost of crude oil and refined products purchased for trading or refining, gas and fuel oil to supply our power generation entities and the result of hedging of international crude oil and refined products sales.

Cost of purchased crude oil, gas and products increased by \$4,092 million in the third quarter of 2011, or by 37.3%, and by \$12,056 million, or by 38.9%, in the nine months of 2011, due to an increase in crude oil and refined products prices. The effect of increased prices was partially offset by a decrease of trading volumes.

In the third quarter of 2011, we recognized a \$220 million gain from hedging, compared to a \$177 million expense in the third quarter of 2010. At the same time, in the nine months of 2011, we recognized a \$422 million expense from hedging, compared to a \$60 million gain in the nine months of 2010.

Transportation expenses

Our transportation expenses increased by \$215 million, or by 15.5%, in the third quarter of 2011 and by \$508 million, or by 12.2%, in the nine months of 2011. This increase was primarily related to Russia and resulted from the ruble appreciation, increased tariffs and change in supply directions.

Our actual transportation expenses related to crude oil and refined products deliveries to various export destinations, weighted by volumes transported, changed in the nine months of 2011, compared to the nine months of 2010, as follows: crude oil pipeline tariffs increased by 15.1%, railway tariffs for refined products transportation increased by 8.9%, crude oil freight rates decreased by 16.2%, and refined products freight rates decreased by 10.6%.

Selling, general and administrative expenses

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

Our selling, general and administrative expenses increased by \$141 million, or by 15.6%, in the third quarter of 2011 and by \$288 million, or by 11.3%, in the nine months of 2011. The reasons for this were an increase of selling expenses and the effect of the real ruble appreciation on our expenses in Russia. At the same time, the above mentioned factors were partially compensated by decrease of provisions for bad debts.

Depreciation, depletion and amortization

Our depreciation, depletion and amortization expenses increased by \$83 million, or by 7.9%, in the third quarter of 2011 and by \$231 million, or by 7.4%, in the nine months of 2011.

Exploration expenses

Our exploration expense increased by \$167 million, or nearly seven-fold, during the third quarter of 2011 and by \$134 million, or by 76.6%, during the nine months of 2011. Dry hole costs amounted to \$165 million in the third quarter of 2011 and \$215 million in the nine months of 2011. In the third quarter and in the nine months of 2010, dry hole costs amounted to \$3 million and \$97 million, respectively.

In the first half of 2011, we charged to expense the cost of an exploratory well in the Komi Republic of Russia in the amount of \$28 million and in Kazakhstan in the amount of \$17 million, and in the third quarter of 2011, we charged to expense \$161 million of costs related to two exploratory wells in Ghana.

In the first quarter of 2010, we charged to expense the cost of an exploratory well in Cote d'Ivoire totaling \$65 million. In the second and third quarters of 2010, there were no individually significant write-offs.

Equity share in income of affiliates

The Group has investments in equity method affiliates and corporate joint ventures. These companies are primarily engaged in crude oil exploration, production, marketing and distribution operations in the Russian Federation, crude oil production and marketing in Kazakhstan and refining operations in Europe. Our largest affiliates are Turgai Petroleum and Tengizchevroil, exploration and production companies operating in Kazakhstan, and ISAB and TRN refineries.

Our share in income of affiliates increased by \$69 million, or by 69.7%, in the third quarter of 2011 and by \$175 million, or by 52.2%, in the nine months of 2011, mostly due to increase in income of Tengizchevroil.

Taxes other than income taxes

	3 rd quarter of		9 months of	
	2011	2010	2011	2010
	(millions of US dollars)			
In Russia				
Mineral extraction taxes	3,094	1,888	8,706	5,611
Social security taxes and contributions	112	83	410	286
Property tax	137	121	406	359
Other taxes	23	11	60	69
Total in Russia	3,366	2,103	9,582	6,325
International				
Mineral extraction taxes	28	19	73	53
Social security taxes and contributions	25	27	76	75
Property tax	5	13	29	31
Other taxes	18	11	51	38
Total internationally	76	70	229	197
Total	3,442	2,173	9,811	6,522

In the third quarter of 2011, taxes other than income taxes increased by 58.4%, or by \$1,269 million, compared to the third quarter of 2010. In the nine months of 2011, taxes other than income taxes increased by 50.4%, or by \$3,289 million, compared to the nine months of 2010. This was mainly due to an increase in mineral extraction taxes in Russia as a result of the rise of the tax rate following the increase of international crude oil prices.

Application of decreased rate for depleted oilfields in the third quarter of 2011 led to \$301 million tax reduction (\$332 million in the third quarter of 2010). In the nine months of 2011, application of decreased rate for depleted oilfields led to \$867 million tax reduction (\$1,010 million in the nine months of 2010). The major oilfield where we benefited from zero extraction tax rate was the Yuzhnoye Khylichuyu field. In early December 2010, accumulated volume of production from this field exceeded the incentive level of 15 million tonnes and since that moment we have been paying extraction tax in full.

Excise and export tariffs

	3 rd quarter of		9 months of	
	2011	2010	2011	2010
	(millions of US dollars)			
In Russia				
Excise tax on refined products	458	250	1,282	685
Crude oil export tariffs	3,302	2,533	8,630	7,896
Refined products export tariffs	1,337	928	3,738	2,680
Total in Russia	5,097	3,711	13,650	11,261
International				
Excise tax and sales taxes on refined products	945	990	2,624	2,722
Crude oil export tariffs	85	31	244	85
Refined products export tariffs	1	–	1	4
Total internationally	1,031	1,021	2,869	2,811
Total	6,128	4,732	16,519	14,072

Export tariffs increased by \$1,233 million, or by 35.3%, in the third quarter of 2011 and by \$1,948 million, or by 18.3%, in the nine months of 2011. The effect of increase of crude oil tariff rates was partially compensated for by a significant decrease in export volumes. Our crude oil export volumes decreased by 13.4% in the third quarter of 2011 and by 15.1% in the nine months of 2011. In spite of a decrease in refined products export volumes in 2011, significant increase in export duty rates led to an increase of export tariffs expenses. Moreover, in the third quarter of 2011, an additional increase in export tariffs expenses was due to sale of refined products stock, produced in the second quarter, when export tariffs rates were at their maximums.

Starting from 2011, excise rates on refined products in Russia were increased and tied to the ecological class of fuel. Despite the fact that the Company produces high quality ecological motor fuel subject to lower excise rates compared to fuel of lower quality, average excise rates roughly doubled for us compared to the respective periods of 2010.

Other non-operating income (expense)

In the nine months of 2011, other non-operating income included the effect of the recalculation of the extraction tax incentive by certain Group companies for prior periods in the total amount of \$433 million, mainly related to the first half of 2011.

In the nine months of 2010, other non-operating income included a \$438 million gain related to successful settlement of a corporate dispute between a Group company and a CNPC group company regarding Turgai Petroleum, and an \$111 million expense related to provisions accrued in respect of claims to the Group companies by Federal Anti-monopoly Service of the Russian Federation (FAS of Russia). Both amounts were recognized by the Group in the third quarter of 2010.

Income taxes

In the third quarter of 2011, our total income tax expense increased by \$554 million, or two-fold, compared to the third quarter of 2010. At the same time, our income before income tax only increased by \$117 million, or by 3.5%.

In the nine months of 2011, our total income tax expense increased by \$911 million, or by 54.9%, compared to the nine months of 2010. Income before income tax increased by \$3,012 million, or by 35.1%.

In the third quarter of 2011, our effective income tax rate was 31.9%, compared to 16.6% in the third quarter of 2010, while in the nine months of 2011, our effective income tax rate was 22.2%, compared to 19.3% in the nine months of 2010. The maximum statutory rate for the Russian Federation is 20%. The high level of the effective income tax rate in the third quarter and the nine months of 2011 was mainly due to income tax expense related to taxable currency translation gains reported by Russian subsidiaries in the third quarter of 2011. Our effective income tax rate in the third quarter and the nine months of 2010 was influenced by a \$438 million non-taxable gain related to successful settlement of a corporate dispute between a Group company and a CNPC group company regarding Turgai Petroleum, and a \$111 million non-deductable expense related to provisions accrued in respect of claims to the Group companies by FAS of Russia.

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

	3 rd quarter of		9 months of	
	2011	2010	2011	2010
	(millions of US dollars)			
Net income attributable to OAO LUKOIL	2,244	2,818	9,012	6,820
Add back:				
Income tax expense.....	1,118	564	2,571	1,660
Depreciation and amortization	1,137	1,054	3,345	3,114
Interest expense	182	162	532	535
Interest and dividend income	(53)	(46)	(144)	(144)
EBITDA	4,628	4,552	15,316	11,985

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

Liquidity and capital resources

	9 months of	
	2011	2010
	(millions of US dollars)	
Net cash provided by operating activities	13,299	11,632
Net cash used in investing activities.....	(7,620)	(4,625)
Net cash used in financing activities	(3,398)	(6,158)

Operating activities

Our primary source of cash flow is funds generated from our operations. During the nine months of 2011, cash generated from operating activities was \$13,299 million, which is 14.3% more than in the same period of 2010, mainly due to the increase in sales revenues. On the other hand, our operating cash flows were affected by an increase in working capital by \$307 million, compared to January 1, 2011.

The increase of working capital was mainly caused by \$907 million increase in inventory. At the same time, this negative effect was partially offset by a \$497 million net decrease in tax accounts receivable and payable and a \$81 million net decrease in VAT receivable and payable.

Investing activities

The increase in cash used in investing activities resulted from an increase in payments for acquisitions.

In the nine months of 2011, we made an advance payment of \$1,778 million for expected acquisition of certain upstream assets and a payment of \$342 million for 11% share in ISAB.

Capital expenditures increased by \$925 million, or by 19.9%, compared to the nine months of 2010.

Financing activities

In the nine months of 2011, net movements of short-term and long-term debt generated an outflow of \$1,393 million, compared to an outflow of \$657 million in the nine months of 2010.

Analysis of capital expenditures

	3 rd quarter of		9 months of	
	2011	2010	2011	2010
	(millions of US dollars)			
Capital expenditures⁽¹⁾				
Exploration and production				
Russia.....	1,146	870	3,581	2,696
International	419	210	908	762
Total exploration and production	1,565	1,080	4,489	3,458
Refining, marketing and distribution				
Russia.....	293	238	667	617
International	61	73	185	226
Total refining, marketing and distribution.....	354	311	852	843
Chemicals				
Russia.....	14	5	33	17
International	7	11	16	42
Total chemicals	21	16	49	59
Power generation and distribution.....	39	98	117	298
Other	55	24	141	61
Total capital expenditures	2,034	1,529	5,648	4,719

Acquisitions of subsidiaries ⁽²⁾

Exploration and production				
Russia.....	—	—	18	3
International	—	—	1,760	—
Total exploration and production	—	—	1,778	3
Refining, marketing and distribution				
Russia.....	—	—	10	50
International	—	3	342	3
Total refining, marketing and distribution.....	—	3	352	53
Less cash acquired	—	—	—	—
Total acquisitions	—	3	2,130	56

⁽¹⁾ Including non-cash transactions and prepayments.

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

Our capital expenditures, including non-cash transactions, amounted to \$5,648 million, which is 19.7% more than in the nine months of 2010. Capital expenditures in exploration and production segment increased by \$1,031 million, or by 28.9%. The effect of ruble appreciation affected our capital expenditures in Russia. The investments in drilling, field development and construction of gas transportation facilities in Western Siberia and petroleum gas utilization program in Komi Republic and Western Siberia also contributed to the increase of our capital expenditures.

The table below shows our exploration and production capital expenditures in promising new production regions.

	3 rd quarter of		9 months of	
	2011	2010	2011	2010
	(millions of US dollars)			
Northern Timan-Pechora.....	30	52	103	169
Yamal.....	64	35	260	126
Caspian region ⁽¹⁾	106	87	325	252
Ghana.....	130	4	177	56
Cote d'Ivoire.....	16	3	28	77
Iraq.....	53	16	128	141
Total	399	197	1,021	821

⁽¹⁾ Russian and international projects.