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

The following represents management's analysis of the financial performance and conditions of OAO LUKOIL and significant trends that may affect its future performance. It should be read in conjunction with our interim US GAAP consolidated financial statements and notes thereto.

References to "LUKOIL", "the Company", "the Group", "we" or "us" are references to OAO LUKOIL and its subsidiaries and equity affiliates. All dollar amounts are in millions of US dollars, unless otherwise indicated. Tonnes of crude oil produced are translated into barrels using conversion rates characterizing the density of oil from each of our oilfields. Tonnes of crude oil purchased as well as other operational indicators expressed in barrels are translated into barrels using an average conversion rate of 7.33. Millions of cubic meters are translated into thousand BOE using a conversion rate of 5.89.

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

	9 months of		Change, %	3rd quarter of		Change, %
	2006	**2005**		**2006**	**2005**	
Sales (including excise and export tariffs)	**51,459**	40,238	27.9	**18,249**	16,189	12.7
Net Income	**6,442**	4,801	34.2	**2,432**	2,211	10.0
EBITDA	**10,178**	7,657	32.9	**3,714**	3,359	10.6
Earnings per share of common stock (US dollars)						
Basic earnings	**7.79**	5.90	32.0	**2.95**	2.72	8.5
Diluted earnings	**7.77**	5.81	33.7	**2.90**	2.67	8.6
Crude oil production by our subsidiaries (thousands of tonnes)	**68,391**	64,002	6.9	**23,503**	21,651	8.6
Crude oil production by the Group including our share in equity affiliates (thousands of tonnes)	**71,134**	66,906	6.3	**24,446**	22,681	7.8
Gas available for sale produced by our subsidiaries (millions of cubic meters)	**9,827**	3,817	157.5	**3,301**	1,199	175.3
Gas available for sale produced by the Group including our share in equity affiliates (millions of cubic meters)	**9,983**	4,007	149.2	**3,356**	1,261	166.1
Refined products produced by our subsidiaries (thousands of tonnes)	**33,550**	32,765	2.4	**11,761**	11,747	0.1

During the nine-month period ended September 30, 2006 our net income was $6,442 million, which is $1,641 million more than in the same period of 2005.

The improvement of our performance resulted from favorable price conditions, increased refining margins, production and refining volumes. However, the growth of our net income was bounded by the growth of taxes linked to international crude oil price. This restraining factor, as well as other drivers impacting the results of our operations, are considered below in detail.

Segment information

Our operations are divided into three main business segments:

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

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

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

Other businesses include banking, finance and other activities. Each of our three main segments is dependent on the other, with a portion of the revenues of one segment being a part of the costs of the other. In particular, our Refining, Marketing and Distribution segment purchases crude oil from our Exploration and Production segment. As a result of certain factors considered in the "Domestic crude oil and refined products prices" section on page 4 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, 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, but we do present the financial data for each in Note 22 to our consolidated financial statements.

Recent developments

In December 2006 the Group sold its 100% stake in LUKOIL Shelf Limited and LUKOIL Overseas Orient Limited which owned and operated ASTRA jack-up rig for approximately $40 million.

In June 2006 the Group acquired 41.81% of the share capital of OAO Udmurtnefteproduct for $25 million. OAO Udmurtnefteproduct is a Russian refined product distribution company, operating more than 100 refuel stations in the Udmurt Republic of the Russian Federation.

In June 2006 a Group company acquired 100% of the share capital of Khanty-Mansiysk Oil Corporation ("KMOC") from Marathon Oil Corporation for $853 million (including $249 million repayment of KMOC debt), which is subject to finalization of working capital and other adjustments in accordance with the purchase agreement. KMOC owns approximately 95% of the share capital of OAO Khantymansiyskneftegazgeologia and 100% of the share capital of OAO Paitykh Oil and OAO Nazymgeodobycha ("KMOC subsidiaries"). KMOC subsidiaries operate oil and gas fields in the West Siberian region of the Russian Federation.

At the end of May 2006 the Group sold its remaining interest in OAO Bank Petrocommerce for $33 million.

During the period from November to December 2005, a Group company acquired 51% of the share capital of OAO Primorieneftegaz for $261 million. OAO Primorieneftegaz is a Russian oil and gas exploration company operating in European Russia. Subsequently, in May 2006, a Group company acquired the remaining 49% of the share capital of OAO Primorieneftegaz for 4.165 million shares of common stock of the Company (at a market value of approximately $314 million), thereby increasing the Group's ownership stake in OAO Primorieneftegaz to 100%.

During the period from October 14 to December 5, 2005 a Group company acquired 100% of the share capital of Nelson Resources Limited ("Nelson") for $1,951 million. Nelson is an exploration and production company operating in western Kazakhstan. Nelson owns an effective 76% interest in the Karakuduk field, 50% interest in Alibekmola, Kozhasai, North Buzachi and Arman fields. In September 2006, a Group company acquired the remaining 40% of share capital of Chaparral Resources Inc. (owner of 60% interest in the Karakuduk field) for $89 million. This acquisition increased the Group's ownership stake in Chaparral Resources Inc. and effective interest in the Karakuduk field to 100%.

In November 2006, a Group company entered into an agreement with Mittal Investments S.A.R.L. to sell 50% of its interest in a Group's wholly owned subsidiary, Caspian Investment Resources Ltd. (Caspian, formerly Nelson Resources Limited), for $980 million. The transaction is expected to be finalized in early 2007. In accordance with the agreement, Mittal Investments S.A.R.L. will also assume a liability in the amount of approximately $160 million, which represents 50% of Caspian outstanding debt to Group companies.

In November 2005 a Group company acquired the remaining 50% of the share capital of ZAO SeverTEK for $318 million from Neste Oil Corporation (including $98 million repayment of ZAO SeverTEK long-term debt). The acquisition increased the Group's ownership stake in ZAO SeverTEK to 100%. ZAO SeverTEK is an exploration and production company operating within the Komi Republic of the Russian Federation.

In July 2005 a Group company acquired 66.0% of the share capital of OOO Geoilbent for $180 million. OOO Geoilbent is an exploration and production company operating in the West Siberian region of the Russian Federation. All decisions over OOO Geoilbent's financing and operating activities require approval by at least a 66.7% majority of the voting rights. Since the minority shareholder of OOO Geoilbent holds substantive participating rights, the Group accounts for its investment in OOO Geoilbent using the equity method of accounting.

In March 2005 we acquired 100% interests in Oy Teboil Ab and Suomen Petrooli Oy, which are incorporated in Finland, for $160 million. Oy Teboil Ab and Suomen Petrooli Oy are mainly engaged in the operation of 289 retail gas stations and 132 retail diesel fuel outlets, wholesale of refined oil products as well as production and sale of lubricants.

Main macroeconomic factors affecting our results of operation

Change in the price of crude oil and refined products

The price at which we sell crude oil and refined products is the primary driver of our revenues. During the nine months of 2006 the Brent crude oil price fluctuated between \$56 and \$79 per barrel. Movements of crude oil prices were driven by various factors. In the second quarter of 2006 growing crude oil prices were influenced by instability in the Middle East and West Africa and a decline in US petrol inventories due to seasonal increase of demand. In the third quarter crude oil prices moved lower on ample global supply and fading tensions in Mideast geopolitics. In the end of the third quarter the crude oil market emerged in a volatile mode. OPEC intention to cut output keeps crude oil prices from sharp downward trend, while ample supply does not let it rise up. Based on OPEC's data, its actual daily production in September 2006 was 29.6 million barrels per day, or 2.6% less than in September 2005. According to the International Energy Agency (IEA) in the nine months of 2006 the world demand for crude oil and, subsequently, refined products amounted to 83.9 million barrels per day, which is 0.6% more than in the nine months of 2005. Global oil demand in 2006 is expected to grow by 1.1% compared to 2005, averaging 84.5 million barrels per day. This situation can be viewed as an indicator that crude oil prices will remain relatively high in a medium-term perspective.

Substantially all of the crude oil that we export is the Urals blend. The following table shows the average crude oil and refined product prices for the nine-month periods of 2006 and 2005 based on Northern Europe averages.

	9 months of		Change,	3rd quarter of		Change,
	2006	2005	%	2006	2005	%
	(in US dollars per bbl, except for figures in percent)					
Brent crude	67.01	53.47	25.3	69.60	61.63	12.9
Urals crude (CIF Mediterranean)*	62.99	49.55	27.1	65.81	57.39	14.7
Urals crude (CIF Rotterdam)*	62.95	49.10	28.2	65.90	57.13	15.4
	(in US dollars per metric tonne, except for figures in percent)					
Fuel oil 3.5% (FOB Rotterdam)	297.30	221.94	34.0	295.63	260.29	13.6
Diesel fuel (FOB Rotterdam)	591.50	496.22	19.2	614.11	569.76	7.8
High-octane gasoline (FOB Rotterdam)	650.08	532.27	22.1	678.04	643.52	5.4

Source: Platts.

* The Company sells crude oil on foreign markets on various delivery terms. Thus, our average realized sale price of oil on international markets differs from the average prices of the 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 on refined products for respective periods of 2006 and 2005.

	9 months of		Change,	3rd quarter of		Change,
	2006	2005	%	2006	2005	%
	(in US dollars per metric tonne, except for figures in percent)					
Fuel oil	184.07	110.48	66.6	195.87	150.03	30.6
Diesel fuel	485.08	405.36	19.7	517.43	445.92	16.0
High-octane gasoline (Regular)	562.29	471.93	19.1	631.46	520.37	21.3
High-octane gasoline (Premium)	609.38	515.40	18.2	676.88	566.71	19.4

Source: Kortes (excluding VAT).

Changes in the US dollar-ruble exchange rate and inflation

A substantial part of our revenues 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, the ruble inflation and movements of exchange rates can significantly affect the results of our operations. In particular, our operating margins are generally adversely affected by real appreciation of the ruble against the US dollar because this will generally cause our costs to increase in US dollar terms relative to our revenues.

The following table gives data on inflation in Russia, the change in the ruble-dollar exchange rate, and the level of real ruble appreciation.

	9 months of		3rd quarter of	
	2006	2005	2006	2005
Ruble inflation (CPI), %	7.3	8.6	1.0	0.7
Change of the ruble-dollar exchange rate, %	7.0	(2.7)	1.1	0.6
Real appreciation of the ruble against the US dollar*, %	15.3	5.7	2.1	1.3
Average exchange rate for the period (ruble to US dollar)	27.39	28.15	26.81	28.51
Exchange rate at the end of the period (ruble to US dollar)	26.78	28.50	–	–

* Devaluation of purchasing power of the US dollar in the Russian Federation calculated on basis of the ruble-dollar exchange rates and the level of inflation in Russia.

Tax burden

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

		9 months of*		Change,
		2006	2005	%
Export tariffs on crude oil	$/tonne	189.79	114.05	66.4
Export tariffs on refined products				
Light distillates (gasoline), middle distillates (jet fuel), diesel fuel and gasoils	$/tonne	137.99	81.12	70.1
Liquid fuels (fuel oil)	$/tonne	74.35	47.75	55.7
Excise on refined products				
High-octane gasoline	RUR/tonne	3,629.00	3,629.00	–
Low-octane gasoline	RUR/tonne	2,657.00	2,657.00	–
Diesel fuel	RUR/tonne	1,080.00	1,080.00	–
Motor oils	RUR/tonne	2,951.00	2,951.00	–
Mineral extraction tax				
Crude oil	RUR/tonne	2,352.35	1,820.22	29.2
Natural gas	RUR/1,000 m^3	147.00	135.00	8.9

* Average values.

		3rd quarter of* 2006	3rd quarter of* 2005	Change, %
Export tariffs on crude oil	$/tonne	210.81	138.72	52.0
Export tariffs on refined products				
Light distillates (gasoline), middle distillates (jet fuel), diesel fuel and gasoils	$/tonne	152.01	105.05	44.7
Liquid fuels (fuel oil)	$/tonne	81.94	56.53	44.9
Excise on refined products				
High-octane gasoline	RUR/tonne	3,629.00	3,629.00	–
Low-octane gasoline	RUR/tonne	2,657.00	2,657.00	–
Diesel fuel	RUR/tonne	1,080.00	1,080.00	–
Motor oils	RUR/tonne	2,951.00	2,951.00	–
Mineral extraction tax				
Crude oil	RUR/tonne	2,429.33	2,203.50	10.2
Natural gas	RUR/1,000 m^3	147.00	135.00	8.9

*Average values.

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

		9 months of* 2006	9 months of* 2005	Change, %	3rd quarter of* 2006	3rd quarter of* 2005	Change, %
Excise on refined products							
High-octane gasoline	USD/tonne	132.49	128.94	2.8	135.36	127.28	6.3
Low-octane gasoline	USD/tonne	97.01	94.40	2.8	99.10	93.19	6.3
Diesel fuel	USD/tonne	39.43	38.37	2.8	40.28	37.88	6.3
Motor oils	USD/tonne	107.74	104.85	2.8	110.07	103.50	6.3
Mineral extraction tax							
Crude oil	USD/tonne	85.88	64.67	32.8	90.61	77.29	17.2
Natural gas	USD/1,000 m^3	5.37	4.80	11.9	5.48	4.74	15.6

* Average values.

During the nine months of 2006 the tax rates specific to the oil industry in Russia rose significantly compared to the respective period of the previous year. These increases primarily resulted from growth of the Urals crude oil price. The methods to determine the rates for such taxes are presented below. Excise on refined products in Russia remained on the same level as in 2005.

Crude oil extraction tax rate. Effective from January 1, 2005, the base rate is 419 rubles per metric tonne extracted and is adjusted depending on the international market price of the 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 $9.00 per barrel. Each $1.00 per barrel increase in the international Urals blend price over the threshold ($9.00 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). This method of the crude oil extraction tax will be applied until December 31, 2006.

Effective from January 1, 2007 the crude oil extraction tax rate will be diversified depending on the development stage and exhaustion of a particular oil field. The tax rate will be zero for extra-heavy crude oil and for crude oil produced in the certain regions of the Eastern Siberia, depending on the period and volume of production. For crude oil produced in the other regions the tax rate calculation described above will be multiplied by a coefficient characterizing an exhaustion of a particular oil field. The coefficient will be equal to 1.0 for the oil fields with exhaustion below 80%. Each 1% increase of exhaustion of a particular oil field above 80% will result in a decrease of the coefficient by 0.035. The minimum value of the coefficient will be 0.3. The exhaustion level assessment will be based on statutory crude oil production and reserves information.

If in 2007 the Urals blend price and our crude oil production stay on the same level as in the nine months of 2006, our annual crude oil extraction tax expense will decrease approximately by $0.4 billion as a result of application of the new methodology.

Natural gas extraction tax rate. Mineral extraction tax on natural gas production is calculated using a flat rate. From time to time Russian legislative authorities amend the tax rate. The current rate of 147 rubles per thousand of cubic meters of natural gas extracted has been effective since January 1, 2006.

Crude oil export duty rate is calculated on a three-layer 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 in a layer 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 the layer's lower bound results in an increase of the crude oil export duty rate by $0.35 per barrel exported. If the Urals blend price is in a layer 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 the layer's lower bound results in an increase of the crude oil export duty rate by $0.45 per barrel exported. Each $1.00 dollar per barrel increase in the Urals blend price over $25.00 per barrel results in an increase of the crude oil export duty rate by $0.65 per barrel exported.

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

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

Transportation of crude oil and refined products in Russia

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

Transportation of crude oil produced in Russia to refineries and export destinations is performed primarily through the trunk oil pipeline system of state-owned OAO AK Transneft ("Transneft"). Access to the Transneft crude oil export pipeline network is allocated quarterly, based on recent volumes produced and delivered through the pipeline and proposed export destinations. There is a constraint on the ability of Russian companies to export their crude oil due to limited capacity of Russian transportation infrastructure on the most profitable export routes. Moreover, the crude oil transported by Transneft is the Urals blend – a mix of crude oils of various qualities, therefore Russian companies, which produce crude oil of a higher quality, can not obtain benefits from selling it using Transneft's pipeline. Alternative access to international markets bypassing Transneft export routes can be obtained through railroad transport, by tankers, including own export infrastructure of crude oil producing companies. Our own export infrastructure includes the Vysotsk terminal in the Leningrad region, Varandey terminal in the Nenetsky Autonomous District and the Izhevskoye terminal in the Kaliningrad region.

Transportation of refined products in Russia is performed by railway transport and pipeline system of OAO AK Transnefteproduct. Russian railway infrastructure is owned by OAO Russian railways. Besides transportation of refined products OAO Russian railways provides oil companies with crude oil transportation services. We transport the major part of our refined products by railway transport.

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

According to the Federal Statistics Service of the Russian Federation, during the twelve months period ended September 30, 2006 transportation tariffs increased as follows: transportation of crude oil by pipeline transport – 6.9%, transportation of refined products by pipeline transport – 4.1%, transportation by railway transport – 8.9%. These amounts differ from actual changes in tariffs for trasportation of crude oil and refined products by the Group for the period considered due to the distinctions in the routes and geography of our supplies from the Russian total transportation averages.

Operational highlights

Hydrocarbon production

	9 months of 2006	9 months of 2005	Change, %
Daily production of hydrocarbons, including Company's share in equity affiliates (thousand BOE per day)	2,138	1,890	13.1
- crude oil	1,923	1,804	6.6
- natural and petroleum gas	215	86	149.2
Hydrocarbon extraction expenses (US dollar per BOE)	3.01	2.63	14.4

	3rd quarter of 2006	3rd quarter of 2005	Change, %
Daily production of hydrocarbons, including Company's share in equity affiliates (thousand BOE per day)	2,176	1,892	15.0
- crude oil	1,961	1,811	8.3
- natural and petroleum gas	215	81	165.4
Hydrocarbon extraction expenses (US dollar per BOE)	3.21	2.68	19.8

Crude oil production. In the nine months of 2006 we increased our total daily crude oil production by 6.6% compared to the same period of 2005 (including the Company's share in equity affiliates) and produced 524.9 million barrels, or 71.1 million tonnes.

The following table represents our production in the nine months of 2006 and 2005 by major regions.

(thousands of tonnes)	9 months of 2006	Change to 2005			9 months of 2005
		Total, %	Change in structure	Organic growth	
Western Siberia	43,826	2.5	775	283	42,768
Komi Republic	8,742	17.8	1,076	245	7,421
Ural region	8,095	5.6	–	431	7,664
Volga region	2,248	–	–	–	2,248
Timano-Pechora (Nenetsky Autonomous District)	1,362	4.3	(35)	91	1,306
Other in Russia	1,532	16.0	(16)	227	1,321
Crude oil production in Russia	65,805	4.9	1,800	1,277	62,728
Crude oil produced internationally	2,586	103.0	1,415	(103)	1,274
Total crude oil produced by consolidated subsidiaries	**68,391**	**6.9**	**3,215**	**1,174**	**64,002**
Our share in crude oil production of equity affiliates:					
in Russia	1,212	(19.9)	(396)	95	1,513
outside of Russia	1,531	10.1	–	140	1,391
Total crude oil production	**71,134**	**6.3**	**2,819**	**1,409**	**66,906**

The main oil production region of the Company is Western Siberia. In the oil fields of Western Siberia the Company produced 64.1% of its crude oil in the nine months of 2006 (66.8% in the nine months of 2005). Significant growth of production in the Komi Republic (17.8% in the nine months of 2006 compared to the same period of 2005) made it the second largest oil production region for us. In order to maintain stable organic growth of oil production in traditional production regions we constantly improve and optimize our oil production methods. As a result, our average well debits increased from 11.04 tonnes a day in the nine months of 2005 to 11.21 tonnes a day in the nine months of 2006. The slowdown in organic growth of crude oil production in Western Siberia was compensated by an increase of production due to structural changes, namely acquisition of the remaining interest in ZAO SeverTEK and increase of our share in ZAO Tursunt in late 2005, which are exploration and production companies operating within the Komi Republic and the West Siberian region of the Russian Federation, respectively. Before 2006, the crude oil production of these companies was accounted for using equity method. Also, in June 2006 we acquired KMOC, whose subsidiaries produced 522 thousand tonnes of crude oil in June-September of 2006. The structural growth in international production was caused by the acquisition of Nelson in October-December of 2005.

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, including vertically integrated oil companies that lack refining capacity or are unable to export their crude oil. Then we may either refine or export purchased crude oil. Crude oil purchased on international markets is used for marketing activities, for supplying our overseas refineries or for processing at third parties refineries. During the nine months of 2006 we purchased 1,576 thousand tonnes in order to process at our and at third parties' refineries compared to 4,720 thousand tonnes during the same period of 2005. The decrease is due to cease of activities at Odessa refinery because of its wide-scale upgrade.

	9 months of				
	2006		**2005**		**Change, %**
	(thousand of barrels)	(thousand of tonnes)	(thousand of barrels)	(thousand of tonnes)	
Crude oil purchases in Russia	10,299	1,405	7,007	956	47.0
Crude oil purchases internationally	25,684	3,504	58,831	8,026	(56.3)
Total crude oil purchased	**35,983**	**4,909**	**65,838**	**8,982**	**(45.3)**

	3rd quarter of				
	2006		**2005**		**Change, %**
	(thousand of barrels)	(thousand of tonnes)	(thousand of barrels)	(thousand of tonnes)	
Crude oil purchases in Russia	3,475	474	3,848	525	(9.7)
Crude oil purchases internationally	7,872	1,074	21,609	2,948	(63.6)
Total crude oil purchased	**11,347**	**1,548**	**25,457**	**3,473**	**(55.4)**

The volume of crude oil purchased in Russia in the nine months of 2006 was 449 thousand tonnes more than in the same period of 2005 as a result of an increase in purchases from our equity affiliates. This trend reflects structural changes in the Group: crude oil purchases in the nine months of 2006 include results of transactions with OOO Geoilbent, our equity affiliate acquired in July 2005. The volume of crude oil purchased internationally during the nine months of 2006 decreased by 4,522 thousand tonnes compared to the nine months of 2005, which was caused by decrease of crude oil refining at our overseas refineries and shift of our marketing activity to refined products.

Gas production. In the nine months of 2006 we produced 9,983 million cubic meters of gas available for sale (including our share in equity affiliates), an increase of 149.2% compared to the nine months of 2005. This increase was mainly caused by production from the Nakhodkinskoe gas field, which totaled 6,186 million cubic meters of natural gas in the nine months of 2006. We started production on the Nakhodkinskoe gas field in April 2005. This is the first stage of development of the Bolshekhetskaya basin fields in the Yamalo-Nenetsky Autonomous District. The field's planned production capacity of 10 billion cubic meters per year is expected to be achieved in 2007. In order to ensure continuous supply of the natural gas from the Nakhodkinskoe gas field to market in October 2003 we signed agreement with OAO Gazprom. In accordance with the agreement OAO Gazprom undertakes to purchase the gas at the Yamburg Compressor Plant and transport it through the Russian Unified Gas Supplying System.

Refining and marketing

We operate four refineries located in European Russia and three refineries located overseas – in Bulgaria, Ukraine and Romania. In August 2005 we commenced a wide-scale upgrade of the Odessa refinery. The upgrade program is scheduled for three years.

Production of refined products at our refineries in the nine months of 2006 increased by 2.4% as compared to the nine months of 2005. Russian refineries increased production by 5.1%. The production of overseas refineries decreased by 8.0% as a result of suspension of production in the Odessa refinery.

In late 2004 we began changing the refined products mix at our refineries in order to produce higher quality and more profitable products. In particular, in the nine months of 2006 we produced 4,613 thousand tonnes of Euro 4 and Euro 5 diesel fuel at our Russian refineries (in the nine months of 2005 – 3,079 thousand tonnes).

Along with our own production of refined products we refine crude oil at third parties' refineries. In Russia we processed 2,392 thousand tonnes of crude oil during the nine months of 2006 primarily to supply our network in the Ural region (in the nine months of 2005 – 1,036 thousand tonnes). To supply our retail networks in Eastern Europe we processed 1,308 thousand tonnes of crude oil in Belorussia and Serbia in the nine months of 2006 (in the respective period of 2005 – 893 thousand tonnes).

In the nine months of 2006 we continued to expand our marketing activities in Western Europe, South-East Asia, Northern and Central America. Our marketing activities mainly include wholesale and bunkering operations in Western Europe and South-East Asia as well as retail operations in the USA, Baltic states and some other regions. The total volume of refined products purchased from third parties for wholesale and to supply retail networks was 27,216 thousand tonnes or $15,263 million in the nine months of 2006 (23,676 thousand tonnes or $10,741 million in the same period of 2005). The increase was a result of the expansion of our marketing activities and continuing development of our retail chains outside of Russia.

In Russia we purchase refined products on occasion, primarily to manage supply chain bottlenecks.

The following tables represent volumes of refinery throughput, refined products produced and purchased.

	9 months of		Change,
	2006	**2005**	**%**
	(thousand barrels per day)		
Own refinery throughput	960	937	2.5
	(thousand of tonnes)		
Refined products produced at the Group refineries in Russia	27,271	25,940	5.1
Refined products produced at the Group refineries outside of Russia	6,279	6,825	(8.0)
Total refined products produced at the Group refineries	**33,550**	**32,765**	**2.4**
Refined products purchased in Russia	838	995	(15.8)
Refined products purchased internationally	27,258	23,687	15.1
Total refined products purchased	**28,096**	**24,682**	**13.8**

	3rd quarter of 2006	3rd quarter of 2005	Change, %
	(thousand barrels per day)		
Own refinery throughput	1,002	994	0.8
	(thousand of tonnes)		
Refined products produced at the Group refineries in Russia	9,521	9,499	0.2
Refined products produced at the Group refineries outside of Russia	2,240	2,248	(0.4)
Total refined products produced at the Group refineries	**11,761**	**11,747**	**0.1**
Refined products purchased in Russia	134	405	(66.9)
Refined products purchased internationally	8,876	8,775	1.2
Total refined products purchased	**9,010**	**9,180**	**(1.9)**

Export of crude oil and refined products from Russia

During the nine months of 2006 the Company exported from Russia 49.5% of total crude oil produced (in the same period of 2005 – 53.9%). 3.0% of crude oil produced was exported bypassing Transneft (in the same period of 2005 – 9.8%). During the nine months of 2006 we decreased the volume of crude oil exported from Russia by 640 thousand tonnes, or 1.8%, compared to the same period of 2005 in order to obtain benefits from increased refined products prices in Russia and on international markets and due to a higher level of export tariff on crude oil compared to export tariffs on refined products.

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

	9 months of 2006 (thousand of barrels)	9 months of 2006 (thousand of tonnes)	9 months of 2005 (thousand of barrels)	9 months of 2005 (thousand of tonnes)	Change, %
Export of crude oil using Transneft export routes	233,072	31,797	206,853	28,220	12.7
Export of crude oil bypassing Transneft	15,254	2,081	46,164	6,298	(67.0)
Total crude oil export	**248,326**	**33,878**	**253,017**	**34,518**	**(1.9)**

	3rd quarter of 2006 (thousand of barrels)	3rd quarter of 2006 (thousand of tonnes)	3rd quarter of 2005 (thousand of barrels)	3rd quarter of 2005 (thousand of tonnes)	Change, %
Export of crude oil using Transneft export routes	77,933	10,632	70,881	9,670	9.9
Export of crude oil bypassing Transneft	6,238	851	9,419	1,285	(33.8)
Total crude oil export	**84,171**	**11,483**	**80,300**	**10,955**	**4.8**

The crude oil exported through own export infrastructure in the nine months of 2006 was 1,679 thousand tonnes compared to 3,199 thousand tonnes in the nine months of 2005. The decrease in crude oil exported through our own terminals occurred because we ceased exporting crude oil through the Vysotsk terminal in the third quarter of 2005 due to increased capacity of the Baltic Pipeline System. As a result, the volume of crude oil exported via the Primorsk terminal in the nine months of 2006 increased up to 9,943 thousand tonnes, or 2,918 thousand tonnes more than in the same period of 2005.

Currently we use the Vysotsk terminal to export refined products: in the nine months of 2006 we exported 6,024 thousand tonnes of refined products through this terminal (in the nine months of 2005 – 3,156 thousand tonnes). In September 2006 we completed the construction of the Vysotsk terminal and extended its capacity up to 11.6 million tonnes per year and total reservoir volume up to 460 thousand cubic meters. In the future the terminal will be used to export both crude oil and refined products depending on market conditions. Its capacity can be extended up to 13.5 million tonnes per year.

In the nine months of 2006 we exported 14.8 million tonnes of refined products, an increase of 28.7% compared to the same period of 2005. We export from Russia primarily diesel fuel, fuel oil and gasoil, which aggregate more than 85% of our refined products export volumes.

Nine months ended September 30, 2006 compared to nine months ended September 30, 2005

Results of operations

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

	9 months of 2006	9 months of 2005	Change, %
	(millions of US dollars)		
Revenues			
Sales (including excise and export tariffs)	51,459	40,238	27.9
Equity share in income of affiliates	344	336	2.4
Total revenues	**51,803**	**40,574**	**27.7**
Costs and other deductions			
Operating expenses	(3,319)	(2,376)	39.7
Cost of purchased crude oil, petroleum and chemical products	(17,335)	(14,379)	20.6
Transportation expenses	(2,811)	(2,522)	11.5
Selling, general and administrative expenses	(2,140)	(1,820)	17.6
Depreciation, depletion and amortization	(1,325)	(937)	41.4
Taxes other than income taxes	(6,175)	(4,669)	32.3
Excise and export tariffs	(9,667)	(6,778)	42.6
Exploration expense	(118)	(244)	(51.6)
(Loss) gain on disposals and impairments of assets	(50)	83	–
Income from operating activities	**8,863**	**6,932**	**27.9**
Interest expense	(219)	(179)	22.3
Interest and dividend income	86	63	36.5
Currency translation gain (loss)	146	(96)	–
Other non-operating expense	(87)	(20)	–
Minority interest	(69)	(96)	(28.1)
Income before income taxes	**8,720**	**6,604**	**32.0**
Current income taxes	(2,170)	(1,766)	22.9
Deferred income taxes	(108)	(37)	–
Total income tax expense	**(2,278)**	**(1,803)**	**26.3**
Net income	**6,442**	**4,801**	**34.2**
Basic earnings per share of common stock (in US dollars)	7.79	5.90	32.0
Diluted earnings per share of common stock (in US dollars)	7.77	5.81	33.7

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

Sales revenues

Sales breakdown	9 months of 2006		2005	
	(millions of US dollars)			
Crude oil				
Export and sales on international markets other than CIS	12,932	25.1%	11,842	29.4%
Export and sales to CIS	665	1.3%	460	1.1%
Domestic sales	310	0.6%	106	0.3%
	13,907	**27.0%**	**12,408**	**30.8%**
Refined products				
Export and sales on international markets				
Wholesale	23,085	45.0%	16,040	40.0%
Retail	5,457	10.6%	4,472	11.1%
Domestic sales				
Wholesale	4,135	8.0%	3,428	8.5%
Retail	1,955	3.8%	1,396	3.5%
	34,632	**67.4%**	**25,336**	**63.1%**
Petrochemicals				
Export and sales on international markets	915	1.8%	863	2.1%
Domestic sales	385	0.7%	342	0.8%
	1,300	**2.5%**	**1,205**	**2.9%**
Other	**1,620**	**3.1%**	**1,289**	**3.2%**
Total sales	**51,459**	**100.0%**	**40,238**	**100.0%**

Sales volumes	9 months of 2006		2005	
Crude oil	(thousands of barrels)			
Export and sales on international markets other than CIS	207,959		242,029	
Export and sales to CIS	17,922		14,836	
Domestic sales	10,379		4,273	
Crude oil	(thousands of tonnes)			
Export and sales on international markets other than CIS	28,371	30.1%	33,019	36.4%
Export and sales to CIS	2,445	2.6%	2,024	2.2%
Domestic sales	1,416	1.5%	583	0.6%
	32,232	**34.2%**	**35,626**	**39.2%**
Refined products	(thousands of tonnes)			
Export and sales on international markets				
Wholesale	42,529	45.0%	35,154	38.6%
Retail	5,353	5.7%	5,214	5.7%
Domestic sales				
Wholesale	11,357	12.0%	12,382	13.6%
Retail	2,937	3.1%	2,595	2.9%
	62,176	**65.8%**	**55,345**	**60.8%**
Total sales volume of crude oil and refined products	**94,408**	**100.0%**	**90,971**	**100.0%**

Realized average sales prices	**9 months of**			
	2006		**2005**	
	($/barrel)	($/tonne)	($/barrel)	($/tonne)
Average realized price international				
Oil (excluding CIS)	62.19	455.82	48.93	358.63
Oil (CIS)	37.09	271.84	31.02	227.35
Refined products				
Wholesale		542.83		456.29
Retail		1,019.38		857.68
Average realized price within Russia				
Oil	29.90	219.14	24.73	181.29
Refined products				
Wholesale		364.08		276.85
Retail		665.82		537.87

During the nine months of 2006 our revenues increased by $11,221 million, or 27.9%, compared to the nine months of 2005.

The total volume of crude oil and refined products sold amounted to 94.4 million tonnes, which is 3.8% more than in the nine months of 2005. Our revenues from crude oil sales increased by $1,499 million, or 12.1%. Our sales of refined products increased by $9,296 million, or 36.7%.

Sales of crude oil and refined products on the international markets, including the CIS, accounted for 83.4% of the total sales volume in the nine months of 2006 compared to 82.9% in the nine months of 2005.

The increase in sales was principally due to the following:

- favorable price conditions (see “Change in the price of crude oil and refined products” on page 4)
- increase in total volume of crude oil production (see “Hydrocarbon production” on page 8)
- increase in marketing activities (see page 10)
- increase in crude oil refining, resulting from an increase in refining margin

Sales of crude oil

Sales of crude oil on international markets increased in the nine months of 2006 by 10.5% compared to the same period of the previous year. The negative effect of reduced volumes of crude oil exported from Russia and crude oil marketing on international markets was compensated by the growth of crude oil prices.

During the nine months of 2006 we increased our sales of crude oil on the domestic market compared to the nine months of 2005 by 833 thousand tonnes, or 142.9%.

Sales of refined products

Sales of refined products made up 67.4% of our total revenues (65.8% in terms of volumes sold) compared to 63.1% (60.8% – in terms of volumes) in the nine months of 2005. The portion of our domestic refined product sales in the nine months of 2006 was 15.1% of the total tonnes sold (in the nine months of 2005 – 16.5%), but represented 11.8% of our total revenues (in the nine months of 2005 – 12.0%). The decrease of this portion was due to expansion of marketing activities outside of Russia.

The average realized wholesale price on refined products outside of Russia increased by $86.54 per tonne, or 19.0%, compared to the nine months of 2005. Wholesale volumes of refined products sold outside of Russia increased by 7,375 thousand tonnes, or 21.0%, due to increased volumes of marketed refined products. As a result, our revenue from wholesale of refined products outside of Russia increased by $7,045 million, or 43.9%.

In the nine months of 2006 retail sales of refined products outside of Russia increased by 139 thousand tonnes, or by 2.7%, compared to the nine months of 2005. Average retail prices increased up to $1,019.38 per tonne, or by 18.9%. As a result, our revenue from retail sales increased by $985 million, or 22.0%. In the nine months of 2006 revenue from retail sales was 19.1% (in the nine months of 2005 – 21.8%) of total refined products sales outside of Russia. Our international retail sales include supplies of refined products to third parties’ retail networks within the bounds of long-term contracts with pricing similar to retail pricing.

Wholesale of refined products within Russia in the nine months of 2006 decreased by 1,025 thousand tonnes, or 8.3%, compared to the respective period of 2005. The average domestic realized price on refined products increased by $87.23 per tonne, or 31.5%. As a result, our revenue from wholesale of refined products on the domestic market increased by $707 million, or 20.6%. Released volumes of refined products were directed to retail segment or exported from Russia.

Retail sales within Russia in the nine months of 2006 increased by 342 thousand tonnes, or 13.2%, compared to the nine months of 2005. Average retail prices increased up to $665.82 per tonne, or by 23.8%. As a result, our revenue from retail sales increased by $559 million, or 40.0%. Revenue from retail sales was 32.1% of total refined products sales in Russia in the nine months of 2006 (in the nine months of 2005 – 28.9%).

Sales of petrochemical products

Revenue from sales of petrochemical products increased by $95 million, or 7.9%, compared to the same period of 2005 due to increase in prices for petrochemical products.

Sales of other products

Other sales include revenues from sales of gas, gas refined products and other services provided and goods not related to our primary activities (such as electricity, heat, etc.) sold by our production and marketing companies. Other sales increased by $331 million, or 25.7%, generally as a result of the growth in gas and gas refined products sales.

Equity share in income of affiliates

Compared to the nine months of 2005, our share in the income of affiliates increased by $8 million, or 2.4%. Our largest affiliate is ZAO Turgai-Petroleum, a 50% interest affiliate company developing the Kumkol oil field in Kazakhstan. The Group's share in the net income of ZAO Turgai-Petroleum in the nine months of 2006 was $164 million, which represents a decrease of $4 million as compared to the same period of 2005. This decrease of the net income of ZAO Turgai-Petroleum was compensated in the nine months of 2006 by growth of profitability of our Russian crude oil production affiliates.

Operating expenses

Operating expenses include the following types of costs:

	9 months of	
	2006	**2005**
	(millions of US dollars)	
Hydrocarbon extraction expenses	1,682	1,291
Refining expenses	528	481
Petrochemical expenses	187	178
Other operating expenses	1,220	983
	3,617	**2,933**
Change in operating expenses in crude oil and refined products inventory originated within the Group	(298)	(557)
Total operating expenses	**3,319**	**2,376**
Cost of purchased crude oil, petroleum and chemical products	**17,335**	**14,379**

Compared to the nine months of 2005, operating expenses increased by $943 million, or 39.7%, which is mainly explained by the growth of hydrocarbon extraction expenses and the movements of operating expenses in crude oil and refined products inventory, originated within the Group.

Real appreciation of the ruble against the US dollar is a significant factor affecting our operating expenses in Russia. For the year ended September 30, 2006 the real ruble appreciation was 16.6%.

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.

Expenses of the Company's crude oil production enterprises related to the sale of services and goods (such as electricity, heat, etc.) that do not relate to core activities have been excluded from extraction expenses and are included in other operating costs.

In the nine months of 2006 our extraction expenses rose by $391 million, or 30.3%, compared to the same period of 2005. The increase resulted from growth of crude oil produced by our subsidiaries up to 68.4 million tonnes, or by 6.9%, compared to the nine months of 2005, effects of the real ruble appreciation, increased expenses of repairs, artificial stimulation of reservoirs, power supply and materials. In the nine months of 2006 extraction expenses included $79 million of expenses related to crude oil producing companies acquired in the late 2005 and in 2006. Our average hydrocarbon extraction cost per barrel of oil equivalent increased from $2.63 to $3.01, or by 14.4%, compared to the nine months of 2005.

Refining expenses at our refineries increased by $47 million, or 9.8%, in the nine months of 2006 compared to the nine months of 2005.

Refining expenses of our domestic refineries increased by 12.3%, or $41 million as a result of increased production volume and due to the effect of the real ruble appreciation.

Refining expenses of our international refineries increased by 4.0%, or $6 million in the nine months of 2006 compared to the nine months of 2005. The growth of refining expenses at our plant in Bulgaria, which was caused by increased production volumes, was partly offset by the reduction of refining expenses at the Odessa refinery, due to its wide-scale upgrade.

Operating expenses of petrochemical companies increased by $9 million, or by 5.1%, compared to the nine months of 2005 mainly as a result of increased cost of raw materials and power supply and maintenance activities performed at our Russian petrochemical plants in the second quarter of 2006.

Other operating expenses include operating expenses of our gas processing plants, the costs of other services provided and goods not related to primary activities (such as electricity, heat, etc.) sold by our production and marketing companies, and operating expenses of other non-core businesses of the Group. Other operating expenses also include transportation costs associated with the delivery of crude oil from the Group's exploration and production entities to the Group's refineries, and processing fees paid to third parties' refineries. Other operating expenses increased by $237 million, or 24.1%, compared to the nine months of 2005. This was due to increased volumes of our crude oil refined at third parties' refineries, increased purchases of gas and gas refined products from third parties and other services provided.

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

Before 2006 such amounts included changes in inventory balances related to mineral extraction tax, export tariffs and transportation expenses. Starting from the first quarter of 2006 such changes are reflected in the corresponding income statements lines. Since the Group's management assesses the effect of this change in classification on the presentation of the income statement for the year 2005 as not material, no reclassifications were made to comparatives.

Cost of purchased crude oil, petroleum and chemical products increased by $2,956 million in the nine months of 2006, or 20.6%, compared to the same period of the previous year due to a significant increase in volumes of refined products trading and growth of market prices for crude oil and petroleum products.

Cost of purchased crude oil, petroleum and chemical products includes the result of hedging of international crude oil and refined products sales. In the nine-month period of 2006 we recognized a $106 million gain on hedging compared to a loss of $397 million in the nine-month period of 2005.

Transportation expenses

The increase in the total volume of sales together with the increase in transportation tariffs led to growth of our transportation expenses in the nine months of 2006 by $289 million, or 11.5%, compared to the nine months of 2005.

Average transportation tariffs weighted by volumes of the Group's crude oil and refined products export deliveries to different locations changed in the nine months of 2006 compared to the same period of the previous year as follows: crude oil sea shipping tariffs decreased by 16.3%; crude oil pipeline tariffs increased by 24.8%; railway tariffs for refined products transportation increased by 24.8%.

Selling, general and administrative expenses

In the nine months of 2006 our selling, general and administrative expenses increased by $320 million, or 17.6%, compared to the nine months of 2005. The above-mentioned expenses include general business expenses, payroll costs (excluding extraction entities' and refineries' production staff costs), insurance costs (except for property insurance related to oil and gas, and refinery equipment), costs of maintenance of social infrastructure, movement in bad debt provision and other expenses.

The increase in selling, general and administrative expenses was a result of the real ruble appreciation and general expansion of our operations outside of Russia. These expenses were also affected by an increase in costs related to a share-based compensation program for management in the nine months of 2006, which was $258 million compared to $219 million in the nine months of 2005.

Selling, general and administrative expenses for the nine months of 2006 also included $91 million of expenses related to our subsidiaries, acquired after September 30, 2005.

Depreciation, depletion and amortization

Depreciation, depletion and amortization expenses include depletion of assets fundamental to production, depreciation of other productive and non-productive assets and certain intangible assets. Our depreciation, depletion and amortization expenses increased by $388 million, or 41.4%, compared to the nine months of 2005. The increase was a result of the Company's capital expenditures and corresponding growth of depreciable assets. The increase included $168 million of depreciation, depletion and amortization expenses related to our acquisitions, made after September 30, 2005.

Taxes other than income taxes

The increase in taxes other than income taxes resulted primarily from a $1,627 million increase in mineral extraction tax, which is linked to international crude oil prices (see "Tax burden" on page 5). Other taxes for the nine months of 2005 included a $150 million provision accrued in relation to the results of tax audits of the Group companies for periods prior to the 2004 financial year.

	9 months of			
	2006		2005	
	In Russia	International	In Russia	International
	(millions of US dollars)			
Mineral extraction tax	5,668	–	4,041	–
Social security taxes and contributions	248	34	233	28
Property tax	154	18	152	16
Other taxes	28	25	173	26
	6,098	**77**	**4,599**	**70**
Total		**6,175**		**4,669**

Excise and export tariffs

Our excise and export tariffs include taxes on sales of refined products and export tariffs on export of crude oil and refined products. Excise and export tariffs increased by $2,889 million, or 42.6%, compared to the nine months of 2005. The increase in export tariff expenses resulted from a growth in export tariff rates (see "Tax burden" on page 5).

	9 months of			
	2006		2005	
	In Russia	International	In Russia	International
	(millions of US dollars)			
Excise tax and sales taxes on refined products	478	2,037	475	1,991
Export tariffs	7,143	9	4,308	4
	7,621	**2,046**	**4,783**	**1,995**
Total		**9,667**		**6,778**

Exploration expenses

During the nine months of 2006 the amount charged to exploration expense decreased by $126 million, or 51.6% compared to the nine months of 2005. This is attributable to the fact that during the nine-month period ended September 30, 2005 the Group completed drilling the first exploratory wells of the Yalama (D-222) and Tyub-Karagan exploration projects. Both exploratory wells were dry and their costs in the amount of $105 million were charged to expense.

(Loss) gain on disposals and impairments of assets

Loss on disposals of assets in the nine months of 2006 amounted to $50 million compared to a $83 million gain in the nine months of 2005.

The losses included the financial result from disposals of a number of non-core assets and individually insignificant impairments on non-performing business units.

At the same time, in the nine months of 2005 we recognized a gain of $135 million on the sale of our 30% interest in OOO Narianmarneftegaz to ConocoPhillips, a gain of $4 million on the sale of our 38% interest in ZAO Globalstroy-Engineering and a gain of $25 million on the sale of the entire interest in ZAO Arktikneft.

Interest expense

Interest expense in the nine months of 2006 increased by $40 million, or by 22.3% compared to the nine months of 2005. The growth of interest expense was primarily due to the debt service related to the loan of $1,934 million, which the Group obtained to finance the acquisition of Nelson and general increase of our indebtedness. Moreover, in the second quarter of 2006 the Group and ConocoPhillips reached an agreement to amend the contractual interest rates related to financing of our joint venture OOO Narianmarneftegaz from 0.1% to 6.8 - 8.0% per annum, which also affected interest expense.

Income taxes

Our total income tax expense increased by $475 million, or 26.3%, compared to the nine months of 2005, due to an increase of income before income tax by $2,116 million, or 32.0%.

Our effective income tax rate in the nine months of 2006 was 26.1% (in the nine months of 2005 it was 27.3%), which is higher than the maximum statutory rate for the Russian Federation (24%). This is attributable to the fact that some costs incurred during the period are not tax deductible or only deductible to a certain limit.

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

	9 months of	
	2006	**2005**
	(millions of US dollars)	
Income before income taxes	**8,720**	**6,604**
Add back:		
Depreciation and amortization	1,325	937
Interest expense	219	179
Interest and dividend income	(86)	(63)
EBITDA	**10,178**	**7,657**

Liquidity and capital resources

	9 months of 2006	9 months of 2005
	(million US dollars)	
Net cash provided by operating activities	6,164	4,122
Net cash used in investing activities	(5,435)	(2,632)
Net cash used in financing activities	(999)	(948)
Net debt	4,446	1,721
Current ratio	1.94	1.95
Total debt to equity	18%	14%
Long term debt to long term debt and equity	12%	9%

Our primary source of cash flow is funds generated from our operations. During the nine months of 2006 cash generated by operating activities was $6,164 million, an increase of $2,042 million compared to the nine months of 2005. In the nine months of 2006 cash inflow from operating activities was impacted by the following factors:

- increase in revenue
- increase in amount of income tax paid
- increase in volume of export sales and, consequently, prepayment of custom fees, export duties and transportation expenses.

Moreover, in the nine months of 2006 our operating cash inflows were significantly affected by an increase of working capital by $1,878 million compared to January 1, 2006. This was mainly caused by:

- a net increase in trade accounts receivable and payable by $215 million, which resulted from an increase in the price of crude oil and refined products and expansion of marketing activities
- an increase of inventory by $1,023 million, which resulted from increased volumes of crude oil and refined products in stock and increased purchase prices
- a net increase by $531 million of VAT receivable and payable balances
- a net increase by $136 million of income tax receivable and payable balances

At the same time, the change in working capital was partly compensated by a net decrease by $129 million of accounts receivable and payable related to taxes other than income taxes, excises and export tariffs

In the nine months of 2006 we spent $1,353 million on acquisitions of interests in other companies, $930 million more compared to the nine months of 2005. We paid $853 million for the acquisition of KMOC. In the respective period of 2005 we spent $396 million for the acquisitions of shares in Oy Teboil Ab and Suomen Petrooli Oy, additional share in LUKOIL Neftochim Burgas AD and prepayment for a 66% equity interest in OOO Geoilbent.

The outflow from financing activities in the nine months of 2006 resulted from $782 million payments for the purchase of the Company’s stock under our capital management program. At the same time, in the nine months of 2006 net movements of short term and long term debt generated an inflow of $391 million, compared to an outflow of $381 million in the respective period of 2005. This inflow included $530 million of borrowings related to the purchase of interest in KMOC, and $267 million of loans received from ConocoPhillips as its part of financing of our joint venture in Timan-Pechora region (previously this loan was accounted for as equity contribution). These factors resulted in a net cash outflow from financing activities of $999 million compared to an outflow of $948 million in the nine months of 2005.

Analysis of capital expenditures

	9 months of		3rd quarter of	
	2006	**2005**	**2006**	**2005**
	(millions of US dollars)			
Exploration and production				
Russia	2,887	1,785	1,196	586
International	495	277	266	90
Total exploration and production	3,382	2,062	1,462	676
Refining, marketing and distribution				
Russia	632	435	240	116
International	329	335	102	124
Total refining, marketing and distribution	961	770	342	240
Chemicals				
Russia	88	40	33	15
International	38	9	18	4
Total chemicals	126	49	51	19
Other	53	37	20	–
Total capital expenditures*	**4,522**	**2,918**	**1,875**	**935**
Acquisitions of subsidiaries**				
Exploration and production				
Russia	1,170	199	–	–
International	91	–	91	–
Total exploration and production	1,261	199	91	–
Refining, marketing and distribution				
Russia	117	22	64	21
International	–	229	–	10
Total refining, marketing and distribution	117	251	64	31
Chemicals				
Russia	–	–	–	–
International	–	–	–	–
Total chemicals	–	–	–	–
Other	19	–	1	–
Less cash acquired	(26)	(10)	–	–
Total acquisitions of subsidiaries	**1,371**	**440**	**156**	**31**

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

Capital expenditures, including non-cash transactions, during the nine months of 2006 amounted to $4,522 million, $1,604 million more than in the same period of the previous year. The growth was mainly caused by expenditures in our exploration and production segment, which increased by $1,320 million compared to the nine months of 2005. The growth in exploration and production capital expenditures in new regions amounted to $454 million. The capital expenditures in traditional exploration regions of Western Siberia increased by $265 million.

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

	9 months of		3rd quarter of	
	2006	**2005**	**2006**	**2005**
	(millions of US dollars)			
Northern Timan-Pechora	1,048	468	458	175
Yamal	103	182	15	19
Caspian region	139	186	57	45
Total	**1,290**	**836**	**530**	**239**

Three months ended September 30, 2006 compared to three months ended September 30, 2005

Results of operations

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

	3rd quarter of 2006	3rd quarter of 2005	Change %
	(millions of US dollars)		
Revenues			
Sales (including excise and export tariffs)	18,249	16,189	12.7
Equity share in income of affiliates	134	135	(0.7)
Total revenues	**18,383**	**16,324**	**12.6**
Costs and other deductions			
Operating expenses	(1,115)	(877)	27.1
Cost of purchased crude oil, petroleum and chemical products	(5,629)	(6,057)	(7.1)
Transportation expenses	(1,044)	(828)	26.1
Selling, general and administrative expenses	(642)	(686)	(6.4)
Depreciation, depletion and amortization	(468)	(336)	39.3
Taxes other than income taxes	(2,342)	(1,775)	31.9
Excise and export tariffs	(3,713)	(2,642)	40.5
Exploration expense	(55)	(61)	(9.8)
(Loss) gain on disposals and impairments of assets	(28)	30	–
Income from operating activities	**3,347**	**3,092**	**8.2**
Interest expense	(78)	(62)	25.8
Interest and dividend income	34	26	30.8
Currency translation loss	(2)	(11)	–
Other non-operating expense	(48)	(14)	–
Minority interest	(51)	(44)	15.9
Income before income taxes	**3,202**	**2,987**	**7.2**
Current income taxes	(586)	(678)	(13.6)
Deferred income taxes	(184)	(98)	87.8
Total income tax expense	**(770)**	**(776)**	**(0.8)**
Net income	**2,432**	**2,211**	**10.0**
Basic earnings per share of common stock (in US dollars)	2.95	2.72	8.5
Diluted earnings per share of common stock (in US dollars)	2.90	2.67	8.6

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

Sales revenues

Sales breakdown	3rd quarter of 2006		2005	
	(millions of US dollars)			
Crude oil				
Export and sales on international markets other than CIS.........	4,752	26.0%	4,432	27.4%
Export and sales to CIS..	202	1.1%	269	1.7%
Domestic sales	108	0.6%	48	0.3%
	5,062	**27.7%**	**4,749**	**29.4%**
Refined products				
Export and sales on international markets				
Wholesale	7,937	43.5%	6,863	42.4%
Retail..	2,010	11.0%	1,867	11.5%
Domestic sales				
Wholesale	1,426	7.8%	1,398	8.6%
Retail..	787	4.3%	563	3.5%
	12,160	**66.6%**	**10,691**	**66.0%**
Petrochemicals				
Export and sales on international markets................................	321	1.8%	213	1.3%
Domestic sales	124	0.7%	113	0.7%
	445	**2.5%**	**326**	**2.0%**
Other	**582**	**3.2%**	**423**	**2.6%**
Total sales	**18,249**	**100.0%**	**16,189**	**100.0%**

Sales volumes	3rd quarter of 2006		2005	
Crude oil	(thousands of barrels)			
Export and sales on international markets other than CIS.........	73,769		77,368	
Export and sales to CIS..	4,963		7,082	
Domestic sales	3,350		1,612	
Crude oil	(thousands of tonnes)			
Export and sales on international markets other than CIS	10,064	31.3%	10,555	32.4%
Export and sales to CIS..	677	2.1%	966	3.0%
Domestic sales	457	1.4%	220	0.7%
	11,198	**34.8%**	**11,741**	**36.1%**
Refined products	(thousands of tonnes)			
Export and sales on international markets				
Wholesale	14,411	44.9%	13,744	42.2%
Retail..	1,885	5.9%	1,930	5.9%
Domestic sales				
Wholesale	3,508	10.9%	4,164	12.8%
Retail..	1,112	3.5%	993	3.0%
	20,916	**65.2%**	**20,831**	**63.9%**
Total sales volume of crude oil and refined products	**32,114**	**100.0%**	**32,572**	**100.0%**

Realized average sales prices	3rd quarter of 2006 ($/barrel)	2006 ($/tonne)	2005 ($/barrel)	2005 ($/tonne)
Average realized price international				
Oil (excluding CIS)	64.42	472.20	57.28	419.88
Oil (CIS)	40.68	298.18	37.92	277.95
Refined products				
Wholesale		550.83		499.39
Retail		1,066.27		967.20
Average realized price within Russia				
Oil	32.46	237.90	29.39	215.45
Refined products				
Wholesale		406.33		335.74
Retail		708.46		566.48

During the third quarter of 2006 our revenues increased by $2,060 million, or 12.7%, compared to the third quarter of 2005.

The total volume of crude oil and refined products sold amounted to 32.1 million tonnes, which is 1.4% less than in the third quarter of 2005. Our revenues from crude oil sales increased by $313 million, or 6.6%. Our sales of refined products increased by $1,469 million, or 13.7%.

Sales of crude oil and refined products on the international markets, including the CIS, accounted for 84.2% of total sales volume in the third quarter of 2006 compared to 83.5% in the third quarter of 2005.

The increase in sales was principally due to the following:

- favorable price conditions (see "Changes in the price of crude oil and refined products" on page 4)
- increase in total volume of crude oil production (see "Hydrocarbon production" on page 8)
- increase in marketing activities (see page 10)
- increase in crude oil refining, resulting from an increase of refining margin

Sales of crude oil

During the third quarter of 2006 we increased our sales of crude oil on the domestic market compared to the third quarter of 2005 by 237 thousand tonnes, or 107.7%.

At the same time we slightly increased the volume of crude oil exported from Russia by 528 thousand tonnes, or 4.8%, compared to the third quarter of 2005. This, along with the growth of crude oil prices, led to an increase in our revenue from international sales of crude oil by 5.4% compared to the third quarter of 2005. The reasons for such increase were growth of international crude oil prices, increased crude oil production and limited domestic refining capacity.

Sales of refined products

Sales of refined products made up 66.6% of our total revenues (65.2% in terms of volumes sold) compared to 66.0% (63.9% – in terms of volumes) in the third quarter of 2005. The portion of our domestic refined product sales in the third quarter of 2006 was 14.4% of the total tonnes sold (in the third quarter of 2005 – 15.8%), but represented 12.1% of our total revenues (in the third quarter of 2005 – 12.1%). The decrease of this portion was due to the expansion of marketing activities outside of Russia.

The average realized wholesale price on refined products outside of Russia increased by $51.44 per tonne, or 10.3%, compared to the third quarter of 2005. Volumes of refined products sold outside of Russia increased by 667 thousand tonnes, or 4.9%. As a result, our revenue from wholesale of refined products outside of Russia increased by $1,074 million, or 15.6%.

In the third quarter of 2006 retail sales of refined products outside of Russia remained on nearly the same level compared to the third quarter of 2005. Average retail prices increased up to $1,066.27 per tonne, or by 10.2%. As a result, our revenue from retail sales increased by $143 million, or 7.7%. In the third quarter of 2006 revenue from international retail sales was 20.2% (in the third quarter of 2005 – 21.4%) of total refined products sales outside of Russia. Our international retail sales include supplies of refined products to third parties' retail networks within the bounds of long-term contracts with pricing similar to retail pricing.

Wholesale of refined products within Russia in the third quarter of 2006 decreased by 656 thousand tonnes, or 15.8% compared to the respective period of 2005. The average domestic realized price on refined products increased by $70.59 per tonne, or 21.0%. As a result, our revenue from wholesale of refined products on the domestic market increased by $28 million, or 2.0%.

Retail sales within Russia in the third quarter of 2006 increased by 119 thousand tonnes, or 12.0%, compared to the third quarter of 2005. Average retail prices increased up to $708.46 per tonne, or by 25.1%. As a result, our revenue from retail sales increased by $224 million, or 39.8%. Revenue from retail sales was 35.6% of total refined products sales in Russia in the third quarter of 2006 (in the third quarter of 2005 – 28.7%).

Sales of petrochemical products

Revenue from sales of petrochemical products increased by $119 million, or 36.5%, compared to the third quarter of 2005, due to the growth of prices for petrochemical products.

Sales of other products

Other sales include revenues from sales of gas, gas refined products and other services provided and goods not related to our primary activities (such as electricity, heat, etc.) sold by our production and marketing companies. Other sales increased by $159 million, or 37.6%, as a result of sales of other products produced by the Company, primarily gas and gas refined products.

Equity share in income of affiliates

Our share in the income of affiliates decreased by $1 million in the third quarter of 2006 compared to the third quarter of 2005.

Operating expenses

Operating expenses include the following types of costs:

	3rd quarter of	
	2006	**2005**
	(millions of US dollars)	
Hydrocarbon extraction expenses	616	450
Refining expenses	185	166
Petrochemical expenses	58	68
Other operating expenses	441	279
	1,300	**963**
Change in operating expenses in crude oil and refined products inventory originated within the Group	(185)	(86)
Total operating expenses	**1,115**	**877**
Cost of purchased crude oil, petroleum and chemical products	**5,629**	**6,057**

Compared to the third quarter of 2005, operating expenses increased by $238 million, or 27.1%, which is mainly explained by the movements of operational expenses in crude oil and refined products inventory, originated within the Group, and the growth of hydrocarbon extraction expenses.

Real appreciation of the ruble against the US dollar is a significant factor affecting our operating expenses in Russia. For the twelve months period ended September 30, 2006 the real ruble appreciation was 16.6%.

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.

Expenses of the Company's crude oil production enterprises related to the sale of services and goods (such as electricity, heat, etc.) that do not relate to core activities have been excluded from extraction expenses and are included in other operating costs.

In the third quarter of 2006 our extraction expenses rose by $166 million, or 36.9%, compared to the same period of 2005. The increase resulted from growth of crude oil produced by our subsidiaries up to 23.5 million tonnes, or by 8.6%, compared to the third quarter of 2005, effects of the real ruble appreciation, increased expenses of repairs, artificial stimulation of reservoirs, power supply and materials. Hydrocarbon extraction expenses for the third quarter of 2006 included $32 million of expenses related to our subsidiaries acquired after September 30, 2005. Our average extraction cost per barrel of oil equivalent increased from $2.68 to $3.21, or by 19.8%, compared to the third quarter of 2005.

Refining expenses at our refineries in the third quarter of 2006 increased by $19 million, or 11.4%, compared to the third quarter of 2005.

Refining expenses of our domestic refineries increased by 14.2%, or $16 million as a result of increased production volume and due to effect of the real ruble appreciation.

Refining expenses of our international refineries increased by 5.7%, or $3 million. The growth of refining expenses at our plant in Bulgaria, which was caused by increased production volumes, was partly offset by the reduction of refining expenses at the Odessa refinery, due to its wide-scale upgrade.

Operating expenses of petrochemical companies decreased by $10 million, or by 14.7%, compared to the third quarter of 2005.

Other operating expenses include operating expenses of our gas processing plants, the costs of other services provided, and goods not related to primary activities (such as electricity, heat, etc.) sold by our production and marketing companies, and operating expenses of other non-core businesses of the Group. Other operating expenses also include transportation costs affiliated with the delivery of crude oil from the Group's exploration and production entities to the Group's refineries, and processing fees paid to third parties' refineries. Other operating expenses increased by $162 million, or 58.1%, compared to the third quarter of 2005. This was due to increased volumes of our crude oil refined at third parties' refineries, increased purchases of gas and gas refined products from third parties and other services provided.

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

Before 2006 such amounts included changes in inventory balances related to mineral extraction tax, export tariffs and transportation expenses. Starting from the second quarter of 2006 such changes are reflected in the corresponding income statements lines. Since the Group's management assesses the effect of this change in classification on the presentation of the income statement for the 2005 year as not material, no reclassifications were made to comparatives.

Cost of purchased crude oil, petroleum and chemical products decreased by $428 million in the third quarter of 2006, or 7.1%, compared to the same period of the previous year. The decrease was primarily due to the result from our hedging activity. Cost of purchased crude oil, petroleum and chemical products includes the result of hedging of international crude oil and refined products sales. For the third quarter of 2006 we recognized a $279 million gain on hedging those purchases compared to a $220 million loss in the third quarter of 2005.

In the third quarter of 2006 we decreased volumes of crude oil purchases, while volumes of refined products marketing remained on the same level. The decrease in volumes was compensated by the growth of prices for crude oil and petroleum products.

Transportation expenses

The increase in the total volume of sales together with the increase in transportation tariffs led to growth of our transportation expenses in the third quarter of 2006 by $216 million, or 26.1%, compared to the third quarter of 2005.

Selling, general and administrative expenses

In the third quarter of 2006 our selling, general and administrative expenses decreased by $44 million , or 6.4%, compared to the third quarter of 2005. This was a combination of two factors: growth of selling, general and administrative expenses due to the real ruble appreciation and expansion of our operations outside of Russia, and a $142 million decrease of expenses related to our share-based management compensation program.

Depreciation, depletion and amortization

Depreciation, depletion and amortization expenses include depletion of assets fundamental to production, depreciation of other productive and non-productive assets and certain intangible assets. Our depreciation, depletion and amortization expenses increased by $132 million, or 39.3%, compared to the third quarter of 2005. The increase was a result of the Company's capital expenditures and corresponding growth of depreciable assets. The increase also included $48 million of depreciation, depletion and amortization expenses related to our subsidiaries, acquired after September, 2005.

Taxes other than income taxes

The increase in taxes other than income taxes resulted primarily from a $536 million increase in mineral extraction tax, which is linked to international crude oil prices (see "Tax burden" on page 5).

	3rd quarter of			
	2006		2005	
	In Russia	International	In Russia	International
	(millions of US dollars)			
Mineral extraction tax	2,176	–	1,640	–
Social security taxes and contributions	74	13	73	11
Property tax	52	7	33	5
Other taxes	10	10	2	11
	2,312	**30**	**1,748**	**27**
Total		**2,342**		**1,775**

Excise and export tariffs

Our excise and export tariffs include taxes on sales of refined products and export tariffs on export of crude oil and refined products. Excise and export tariffs increased by $1,071 million, or 40.5%, compared to the third quarter of 2005. The increase in export tariff expenses resulted from a growth in export tariff rates (see "Tax burden" on page 5).

	3rd quarter of			
	2006		2005	
	In Russia	International	In Russia	International
	(millions of US dollars)			
Excise tax and sales taxes on refined products	149	770	168	756
Export tariffs	2,791	3	1,716	2
	2,940	**773**	**1,884**	**758**
Total		**3,713**		**2,642**

Exploration expenses

During the third quarter of 2006 the amount charged to exploration expense decreased by $6 million, or 9.8% compared to the third quarter of 2005.

(Loss) gain on disposals and impairments of assets

Loss on disposals of assets in the third quarter of 2006 amounted to $28 million compared to a $30 million gain in the third quarter of 2005.

The losses included the financial result from disposals of a number of non-core assets and individually insignificant impairments on non-performing business units.

In the third quarter of 2005 we recognized a gain of $25 million on the sale of our entire interest in ZAO Arktikneft.

Interest expense

Interest expense in the third quarter of 2006 increased by $16 million, or 25.8%, compared to the third quarter of 2005. The growth of interest expense was primarily due to the debt service related to the loan of $1,934 million, which the Group obtained to finance the acquisition of Nelson and general increase of our indebtedness. Moreover, in the second quarter of 2006 the Group and ConocoPhillips reached an agreement to amend the contractual interest rates related to financing of our joint venture OOO Narianmarneftegaz from 0.1% to 6.8-8.0% per annum, which also affected interest expense.

Income taxes

Our total income tax expense decreased by $6 million compared to the third quarter of 2005, despite of an increase of income before income tax by $215 million, or 7.2%.

Our effective income tax rate in the third quarter of 2006 was 24.0% (in the third quarter of 2005 it was 26.0%).

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

	3rd quarter of	
	2006	**2005**
	(millions of US dollars)	
Income before income taxes	**3,202**	**2,987**
Add back:		
Depreciation and amortization	468	336
Interest expense	78	62
Interest and dividend income	(34)	(26)
EBITDA	**3,714**	**3,359**