OAO LUKOIL

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(prepared in accordance with US GAAP)

As of and for the three and nine month periods ended September 30, 2005

(unaudited)

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

Independent Accountants' Review Report

The Board of Directors of OAO LUKOIL:

We have reviewed the accompanying consolidated balance sheet of OAO LUKOIL and its subsidiaries as of September 30, 2005, the related consolidated statements of income for the three-month and nine-month periods ended September 30, 2005 and 2004 and the related consolidated statements of cash flows for the nine-month periods ended September 30, 2005 and 2004. These consolidated financial statements are the responsibility of the management of OAO LUKOIL.

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

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

KPMG Limited

KPMG Limited
Moscow, Russian Federation
January 10, 2006

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

	Note	As of September 30, 2005 (unaudited)	As of December 31, 2004
Assets			
Current assets			
Cash and cash equivalents	4	1,780	1,257
Short-term investments		124	149
Accounts and notes receivable, net	5	5,742	3,867
Inventories		2,885	1,759
Prepaid taxes and other expenses		1,770	1,242
Other current assets		411	300
Total current assets		**12,712**	**8,574**
Investments		1,201	779
Property, plant and equipment		21,119	19,329
Deferred income tax assets		123	138
Goodwill and intangible assets		648	610
Other non-current assets		524	331
Total assets		**36,327**	**29,761**
Liabilities and Stockholders' equity			
Current liabilities			
Accounts payable		2,276	1,787
Short-term borrowings and current portion of long-term debt	7	1,130	1,265
Taxes payable		2,583	1,238
Other current liabilities		531	255
Total current liabilities		**6,520**	**4,545**
Long-term debt	8	2,371	2,609
Deferred income tax liabilities		761	698
Asset retirement obligations		369	307
Other long-term liabilities		532	338
Minority interest in subsidiary companies		912	453
Total liabilities		**11,465**	**8,950**
Stockholders' equity	11		
Common stock		15	15
Treasury stock, at cost		(666)	(706)
Additional paid-in capital		3,569	3,564
Retained earnings		21,944	17,938
Total stockholders' equity		**24,862**	**20,811**
Total liabilities and stockholders' equity		**36,327**	**29,761**

President of OAO LUKOIL
Alekperov V.Y.

Chief accountant of OAO LUKOIL
Khoba L.N.

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

	Note	For the three months ended September 30, 2005 (unaudited)	For the three months ended September 30, 2004 (unaudited)	For the nine months ended September 30, 2005 (unaudited)	For the nine months ended September 30, 2004 (unaudited)
Revenues					
Sales (including excise and export tariffs)	18	16,189	9,740	40,238	24,217
Equity share in income of affiliates		135	82	336	214
Total revenues		**16,324**	**9,822**	**40,574**	**24,431**
Costs and other deductions					
Operating expenses		(877)	(767)	(2,376)	(2,101)
Cost of purchased crude oil, petroleum and chemical products		(6,057)	(3,007)	(14,379)	(7,335)
Transportation expenses		(828)	(697)	(2,522)	(2,080)
Selling, general and administrative expenses		(686)	(523)	(1,820)	(1,445)
Depreciation, depletion and amortization		(336)	(292)	(937)	(806)
Taxes other than income taxes		(1,775)	(957)	(4,669)	(2,515)
Excise and export tariffs		(2,642)	(1,465)	(6,778)	(3,412)
Exploration expenses		(61)	(38)	(244)	(125)
Gain (loss) on disposals and impairments of assets		30	(97)	83	(168)
Income from operating activities		**3,092**	**1,979**	**6,932**	**4,444**
Interest expense		(62)	(77)	(179)	(220)
Interest and dividend income		26	46	63	145
Currency translation (loss) gain		(11)	(7)	(96)	12
Other non-operating (expense) income		(14)	11	(20)	15
Minority interest		(44)	(20)	(96)	(57)
Income before income taxes		**2,987**	**1,932**	**6,604**	**4,339**
Current income taxes		(678)	(554)	(1,766)	(1,266)
Deferred income taxes		(98)	21	(37)	22
Total income tax expense	3	**(776)**	**(533)**	**(1,803)**	**(1,244)**
Net income		**2,211**	**1,399**	**4,801**	**3,095**
Per share of common stock (US dollars):					
Basic	11	2.72	1.71	5.90	3.79
Diluted	11	2.67	1.69	5.81	3.73

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

	Note	For the nine months ended September 30, 2005 (unaudited)	For the nine months ended September 30, 2004 (unaudited)
Cash flows from operating activities			
Net income		**4,801**	**3,095**
Adjustments for non-cash items:			
Depreciation, depletion and amortization		937	806
Equity share in income of affiliates		(295)	(203)
Dry hole costs		137	39
(Gain) loss on disposals and impairments of assets		(83)	168
Deferred income taxes		37	(22)
Non-cash currency translation gain		(8)	(18)
Non-cash investing activities		(86)	(59)
All other items – net		138	157
Changes in operating assets and liabilities:			
Accounts and notes receivable		(1,664)	(1,031)
Short-term loans receivable of a banking subsidiary		(17)	(113)
Customers deposits placed in a banking subsidiary		38	(85)
Inventories		(1,049)	(207)
Accounts payable		419	163
Taxes payable		1,252	423
Other current assets and liabilities		(435)	(243)
Net cash provided by operating activities		**4,122**	**2,870**
Cash flows from investing activities			
Capital expenditures		(2,800)	(2,242)
Proceeds from sale of property, plant and equipment		39	80
Purchases of investments		(176)	(505)
Proceeds from sale of investments		160	134
Sale of an interest in a subsidiary and affiliated company		568	149
Acquisitions of subsidiaries and minority shareholding interest, net of cash acquired		(423)	(295)
Net cash used in investing activities		**(2,632)**	**(2,679)**
Cash flows from financing activities			
Net movements of short-term borrowings		(232)	(21)
Proceeds from issuance of long-term debt		401	944
Principal repayments of long-term debt		(550)	(628)
Dividends paid		(673)	(286)
Financing from related party		55	-
Purchase of treasury stock		-	(352)
Proceeds from sale of treasury stock		46	273
Other – net		5	(4)
Net cash used in financing activities		**(948)**	**(74)**
Effect of exchange rate changes on cash and cash equivalents		(19)	8
Net increase in cash and cash equivalents		**523**	**125**
Cash and cash equivalents at beginning of the period		1,257	1,435
Cash and cash equivalents at end of the period	4	**1,780**	**1,560**

Supplemental disclosures of cash flow information		
Interest paid	246	226
Income tax paid	1,631	1,110

Note 1. Basis of Financial Statement presentation

The accompanying interim consolidated financial statements and notes thereto of OAO LUKOIL (the "Company") and its subsidiaries (together, the "Group") have not been audited by independent accountants, except for the balance sheet as of December 31, 2004. In the opinion of the Company's management, the interim financial information includes all adjustments and disclosures necessary to present fairly the Group's financial position, results of operations and cash flows for the interim periods reported herein. These adjustments were of a normal recurring nature.

These interim consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America. Certain notes and other information have been condensed or omitted from the interim financial statements. Therefore, these financial statements should be read in conjunction with the Group's December 31, 2004 annual consolidated financial statements. The interim consolidated financial statements have been prepared following the accounting policies applied and disclosed in the December 31, 2004 consolidated financial statements. Prior period amounts have been reclassified, where applicable, to conform with current period presentation.

The results for the three-month and nine-month periods ended September 30, 2005 are not necessarily indicative of the results expected for the full year.

Foreign currency translation

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

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

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

Foreign currency transaction gains and losses are included in the consolidated statement of income.

As of September 30, 2005 and December 31, 2004, exchange rates of 28.50 and 27.75 Russian rubles to the US dollar, respectively, have been used for translation purposes.

The Russian ruble and other currencies of republics of the former Soviet Union are not readily convertible outside of their countries. Accordingly, the translation of amounts recorded in these currencies into US dollars should not be construed as a representation that such currency amounts have been, could be or will in the future be converted into US dollars at the exchange rate shown or at any other exchange rate.

(Millions of US dollars, unless otherwise noted)

Note 2. Recent accounting pronouncements

In April 2005, the FASB staff issued FASB Staff Position ("FSP") No. FAS 19-1 "*Accounting for Suspended Well Costs*". FSP No. 19-1 amends SFAS No. 19 "*Financial Accounting and Reporting by Oil and Gas Producing Companies*" to revise the criteria for continued capitalization of costs in relation to exploratory wells and exploratory-type stratigraphic wells. As amended, SFAS No. 19 allows continued capitalization of such costs for more than one year, provided (a) the well has found a sufficient quantity of reserves to justify its completion as a producing well and (b) the company is making sufficient progress assessing the reserves and the economic and operating viability of the project. If either condition is not met or if a company obtains information that raises substantial doubt about the economic or operational viability of the project, the exploratory well would be assumed impaired, and its costs, net of any salvage value, would be charged to expense. Following adoption of the changes, certain exploration costs which would have been charged to the income statement will remain capitalized and will instead be subject to depreciation, depletion and amortization in future periods. FSP No. 19-1 also requires certain additional disclosures in relation to suspended well costs. The adoption of the provisions of FSP No. 19-1 during the quarterly reporting period ended September 30, 2005 did not have a material impact on the Group's results of operations, financial position or cash flows.

In December 2004, the FASB issued SFAS No. 123(R) "*Share-Based Payment*", which revises SFAS No. 123 and supersedes Accounting Principles Board (APB) Opinion No. 25 regarding stock-based employee compensation plans. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be valued at fair value on the date of grant, and to be expensed over the applicable vesting period. The Group will adopt the provisions of SFAS No. 123(R) in the first quarter 2006 and is currently assessing the effect of adoption.

Note 3. Income taxes

Operations in the Russian Federation are subject to Federal and city income tax rates that total 9.5% and a regional tax rate that varies from 10.5% to 14.5% at the discretion of the individual regional administration. Substantially all of the Group's operations in Russia were subject to a combined statutory income tax rate of 24%.

The Group's effective income tax rate for the periods presented differs from the statutory income tax rate primarily due to the incurrence of costs that are either not tax deductible or only deductible to a certain limit.

Note 4. Cash and cash equivalents

	As of September 30, 2005	**As of December 31, 2004**
Cash held in Russian rubles	554	218
Cash held in other currencies	732	557
Cash of a banking subsidiary in other currencies	58	176
Cash held in affiliated banks in Russian rubles	395	255
Cash held in affiliated banks in other currencies	41	51
Total cash and cash equivalents	**1,780**	**1,257**

(Millions of US dollars, unless otherwise noted)

Note 5. Accounts and notes receivable, net

	As of September 30, 2005	As of December 31, 2004
Trade accounts and notes receivable (net of provisions of $85 million as of September 30, 2005 and December 31, 2004)	3,612	2,316
Current VAT and excise recoverable	1,852	1,302
Short-term loans receivable of a banking subsidiary	42	25
Other current accounts receivable (net of provisions of $49 million and $66 million as of September 30, 2005 and December 31, 2004, respectively)	236	224
Total accounts and notes receivable, net	**5,742**	**3,867**

Note 6. Disposition of assets

In June 2005, the Company sold its 38% interest in its construction affiliate ZAO Globalstroy-Engineering – formerly ZAO LUKOIL-Neftegazstroy for $69 million. The Group recognized a gain of $4 million in relation to this transaction, which is included in “Gain (loss) on disposals and impairments of assets” in the consolidated statement of income.

Note 7. Short-term borrowings and current portion of long-term debt

	As of September 30, 2005	As of December 31, 2004
Short-term borrowings from third parties	723	875
Short-term borrowings from related parties	6	18
Current portion of long-term debt	401	372
Total short-term borrowings and current portion of long-term debt	**1,130**	**1,265**

Note 8. Long-term debt

	As of September 30, 2005	As of December 31, 2004
Long-term loans and borrowings from third parties	2,068	2,276
Long-term loans and borrowings from related parties	48	14
3.5% Convertible US dollar bonds, maturing 2007	391	380
7.25% Russian ruble bonds, maturing 2009	211	216
Capital lease obligation	54	95
Total long-term debt	2,772	2,981
Current portion of long-term debt	(401)	(372)
Total non-current portion of long-term debt	**2,371**	**2,609**

Long-term loans and borrowings

Long-term loans and borrowings are primarily repayable in US dollars, maturing from 2005 through 2017 and are generally secured by export sales, property, plant and equipment and securities.

(Millions of US dollars, unless otherwise noted)

Note 8. Long-term debt (continued)

Convertible US dollar bonds

On November 29, 2002, a Group company issued 350,000 3.5% convertible bonds with a face value of $1,000 each, maturing on November 29, 2007, and exchangeable for 12.112 (previously 11.948) global depository receipts ("GDRs") of the Company per bond. The bonds are convertible into GDRs on or after January 9, 2003 up to the maturity date. The GDRs are exchangeable into four shares of common stock of the Company. Bonds not converted by the maturity date must be redeemed for cash. The redemption price at maturity will be 120.53% of the face value in respect of these bonds. A Group company may redeem the bonds for cash prior to maturity, subject to certain restrictions and early redemption charges. The carrying amount of the bonds is being accreted to their redemption value with the accreted amount being charged to the consolidated statement of income.

As of January 10, 2006, bondholders converted 266,821 bonds into 12.9 million shares of common stock of the Company.

Group companies held sufficient treasury stock to permit the full conversion of the bonds to GDRs.

Russian ruble bonds

In November 2004, the Company issued 6 million Russian ruble bonds with a nominal value of 1,000 Russian rubles each, maturing on November 23, 2009. For a period of 7 days commencing on November 13, 2007, the bonds holders have the right to demand the Company repurchase the bonds. The bonds have a half year coupon period and bear interest at 7.25% per annum.

Note 9. Comprehensive income

	For the three months ended September 30, 2005	For the three months ended September 30, 2004	For the nine months ended September 30, 2005	For the nine months ended September 30, 2004
Net income	2,211	1,399	4,801	3,095
Other comprehensive income:				
Foreign currency translation adjustment	-	4	-	1
Comprehensive income	**2,211**	**1,403**	**4,801**	**3,096**

Note 10. Pension benefits

Components of net periodic benefit cost were as follows:

	For the three months ended September 30, 2005	For the three months ended September 30, 2004	For the nine months ended September 30, 2005	For the nine months ended September 30, 2004
Service cost	1	1	3	3
Interest cost	6	8	17	24
Less expected return on plan assets	(1)	(2)	(3)	(6)
Amortization of prior service cost	3	5	9	15
Actuarial gain	(1)	(1)	(3)	(3)
Total net periodic benefit cost	**8**	**11**	**23**	**33**

Note 11. Stockholders' equity

Common stock

	As of September 30, 2005 (millions of shares)	As of December 31, 2004 (millions of shares)
Authorized and issued common stock, par value of 0.025 Russian rubles each	850	850
Common stock held by subsidiaries, not considered as outstanding	(5)	(5)
Treasury stock	(32)	(34)
Outstanding common stock	813	811

Earnings per share

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

	For the three months ended September 30, 2005	For the three months ended September 30, 2004	For the nine months ended September 30, 2005	For the nine months ended September 30, 2004
Net income	2,211	1,399	4,801	3,095
Add back convertible debt interest (net of tax at effective rate)				
3.5% Convertible US dollar bonds, maturing 2007	7	7	20	20
Total diluted net income	2,218	1,406	4,821	3,115
Weighted average number of outstanding common shares (thousands of shares)	813,492	816,934	813,342	817,418
Add back treasury shares held in respect of convertible debt (thousands of shares)	16,957	16,957	16,957	16,810
Weighted average number of outstanding common shares, after dilution (thousands of shares)	830,449	833,891	830,299	834,228

Dividends

At the annual stockholders' meeting on June 28, 2005, dividends were declared for 2004 in the amount of 28 Russian rubles per common share, which at the date of the meeting was equivalent to $0.98. Dividends payable of $78 million are included in "Other current liabilities" in consolidated balance sheet as of September 30, 2005.

Note 12. Business combinations

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 Western 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. Because 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, a Group company acquired 100% interest in Oy Teboil Ab and Suomen Petrooli Oy for $160 million. Oy Teboil Ab and Suomen Petrooli Oy are marketing and distribution companies mainly engaged in operating a chain of retail petrol stations, wholesale of refined products and production and sale of lubricants in Finland.

(Millions of US dollars, unless otherwise noted)

Note 12. Business combinations (continued)

In January 2005, a Group company acquired an additional 22% interest in LUKOIL Neftochim Bourgas AD for $56 million (20.7% interest was acquired from a related party for $52 million). The acquisition increased the Group's ownership stake in LUKOIL Neftochim Bourgas AD to 93.2%. In August 2005, a Group company acquired an additional 4% interest in LUKOIL Neftochim Bourgas AD for $10 million, thereby increasing the Group's ownership stake in LUKOIL Neftochim Bourgas AD to 97.2%.

On January 26, 2004, a Group company entered into an agreement with ConocoPhillips to purchase 308 gas stations and contracts to supply petroleum products to an additional 471 gas stations in the Northeast of the United States of America for $270 million. The transaction was finalized in May 2004.

Note 13. Consolidation of Variable Interest Entity

On June 30, 2005, the Company completed the formation of a joint venture with ConocoPhillips within the framework of their broad-based strategic alliance. This joint venture was created by selling ConocoPhillips an interest in the Company’s wholly owned subsidiary OOO Narianmarneftegaz (“NMNG”) for $512 million. The amount of consideration is subject to certain adjustments to be determined by January 26, 2006. This joint venture is to develop oil reserves in the Timan-Pechora region of the Russian Federation. The Group and ConocoPhillips have equal voting rights over the joint venture’s activity and effective ownership interests of 70% and 30%, respectively. As of June 30, 2005, NMNG’s total assets were approximately $1.6 billion.

The Group has determined that NMNG is a variable interest entity as the Group’s voting rights are not proportionate to its ownership rights and all of NMNG’s activities are conducted on behalf of the Group and ConocoPhillips, its related party. The Group has also determined that it is the primary beneficiary and has consolidated NMNG.

As a result of the transaction, the Group recognized a gain of $135 million, which is included in “Gain (loss) on disposals and impairments of assets” in the consolidated statement of income.

Note 14. Financial guarantees

The following table provides the undiscounted maximum amount of potential future payments for each major group of guarantees:

	As of September 30, 2005	As of December 31, 2004
Guarantees of equity investees’ debt	546	629
Guarantees of third parties’ debt	25	13
Total	**571**	**642**

Guarantees issued in regard to equity investees relate to their borrowings obtained to finance capital projects and for general corporate purposes. The Group entered into these guarantees to enhance the credit standing of affiliated companies (LUKARCO and ZAO SeverTEK, which became the Group’s subsidiary in November 2005, refer to Note 20 “Subsequent events”). Under the terms of the guarantees the Group would be required to perform should an affiliate be in default of its contractual terms, generally for the full amount as disclosed in the table above. There are no provisions for recourse to third parties, and no assets are held as collateral for the obligations of affiliates. One of the guarantees is secured by the shares of an affiliated company held by the Group, the carrying amount of which was approximately $47 million and $31 million as of September 30, 2005 and December 31, 2004, respectively. No collateral secures the other guarantee. As of September 30, 2005, it is not probable that the Group will be required to make payments under these guarantees, and, therefore, no liability has been accrued related to these guarantees.

Note 15. Financial and derivative instruments

The Group uses derivative instruments in its international petroleum products marketing and trading operations. The types of derivative instruments used include futures and swap contracts, used for hedging purposes, and purchase and sale contracts that qualify as derivative instruments. The Group maintains a system of controls over these activities that includes policies covering the authorization, reporting and monitoring of derivative activity. The Group recognized an expense from the use of derivative instruments of $220 million, $70 million for the three months ended September 30, 2005 and 2004, respectively, and $397 million and $108 million for the nine months ended September 30, 2005 and 2004, respectively. The expense is included in "Cost of purchased crude oil, petroleum and chemical products" in the consolidated statement of income. The fair value of derivative contracts outstanding and recorded on the consolidated balance sheet was a net liability of $19 million as of September 30, 2005 and a net asset of $28 million as of December 31, 2004.

Note 16. Related party transactions

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

Below are related party transactions not disclosed elsewhere in the financial statements. Refer also to Notes 4, 6, 7, 8, 12, 13, 14 and 17 for transactions with related parties.

Sales of oil and oil products to related parties were $124 million, $26 million, $416 million and $69 million for the three months ended September 30, 2005 and 2004 and for the nine months ended September 30, 2005 and 2004, respectively.

Other sales to related parties were $21 million, $9 million, $63 million and $35 million for the three months ended September 30, 2005 and 2004 and for the nine months ended September 30, 2005 and 2004, respectively.

Purchases of oil and oil products from related parties were $696 million, $132 million, $1,691 million and $332 million for the three months ended September 30, 2005 and 2004 and for the nine months ended September 30, 2005 and 2004, respectively.

Purchases of construction services from related parties were nil, $99 million, $375 million and $339 million for the three months ended September 30, 2005 and 2004 and for the nine months ended September 30, 2005 and 2004, respectively.

Purchases of insurance services from related parties were $30 million, $28 million, $92 million and $103 million during the three months ended September 30, 2005 and 2004 and during the nine months ended September 30, 2005 and 2004, respectively.

Other purchases from related parties were $19 million, $17 million, $44 million and $49 million for the three months ended September 30, 2005 and 2004 and for the nine months ended September 30, 2005 and 2004, respectively.

Amounts receivable from related parties, including loans and advances, were $231 million and $225 million as of September 30, 2005 and December 31, 2004, respectively. Amounts payable to related parties were $184 million and $150 million as of September 30, 2005 and December 31, 2004, respectively.

(Millions of US dollars, unless otherwise noted)

Note 17. Compensation plan

During 2003, the Company introduced a compensation plan available to certain members of management, which provides compensation based upon share appreciation rights on the Company's common stock. The number of shares, or rights, allocated to the plan is approximately 11 million shares. These rights vest in December 2006. The Group has accrued a liability of $239 million and $68 million as of September 30, 2005 and December 31, 2004, respectively, and recorded $131 million, $24 million, $219 million and $55 million of compensation expense during the three months ended September 30, 2005 and 2004 and during the nine months ended September 30, 2005 and 2004, respectively.

Note 18. Segment information

Presented below is information about the Group's operating and geographical segments for the periods ended September 30, 2005 and 2004, in accordance with SFAS No. 131, *"Disclosures about Segments of an Enterprise and Related Information."*

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

Geographical segments have been determined based on the area of operations and include three segments. They are Western Siberia, European Russia and International.

Operating segments

For the three months ended September 30, 2005

	Exploration and production	Refining, marketing and distribution	Chemicals	Other	Elimination	Consolidated
Sales						
Third parties	248	15,601	332	8	-	16,189
Inter-segment	4,587	227	3	35	(4,852)	-
Total sales	4,835	15,828	335	43	(4,852)	16,189
Operating expenses and total cost of purchases	669	10,700	322	34	(4,791)	6,934
Depreciation, depletion and amortization	216	112	5	3	-	336
Interest expense	7	93	-	8	(46)	62
Income tax expense	386	384	5	-	1	776
Net income	1,373	921	2	23	(108)	2,211
Total assets	20,853	21,444	553	3,201	(9,724)	36,327
Capital expenditures	676	240	19	-	-	935

(Millions of US dollars, unless otherwise noted)

Note 18. Segment information (continued)

For the three months ended September 30, 2004

	Exploration and production	Refining, marketing and distribution	Chemicals	Other	Elimination	Consolidated
Sales						
Third parties	476	8,938	323	3	-	9,740
Inter-segment	2,327	148	4	45	(2,524)	-
Total sales	2,803	9,086	327	48	(2,524)	9,740
Operating expenses and total cost of purchases	664	5,392	266	17	(2,565)	3,774
Depreciation, depletion and amortization	192	93	2	5	-	292
Interest expense	18	69	-	27	(37)	77
Income tax expense	143	382	3	4	1	533
Net income	525	827	34	60	(47)	1,399
Total assets	17,262	16,492	331	3,133	(8,068)	29,150
Capital expenditures	440	241	13	11	-	705

For the nine months ended September 30, 2005

	Exploration and production	Refining, marketing and distribution	Chemicals	Other	Elimination	Consolidated
Sales						
Third parties	749	38,225	1,233	31	-	40,238
Inter-segment	10,677	679	17	91	(11,464)	-
Total sales	11,426	38,904	1,250	122	(11,464)	40,238
Operating expenses and total cost of purchases	1,976	24,833	996	92	(11,142)	16,755
Depreciation, depletion and amortization	588	330	11	8	-	937
Interest expense	32	246	-	27	(126)	179
Income tax expense	752	1,035	26	3	(13)	1,803
Net income	2,456	2,531	110	32	(328)	4,801
Total assets	20,853	21,444	553	3,201	(9,724)	36,327
Capital expenditures	2,062	770	49	37	-	2,918

(Millions of US dollars, unless otherwise noted)

Note 18. Segment information (continued)

For the nine months ended September 30, 2004

	Exploration and production	Refining, marketing and distribution	Chemicals	Other	Elimination	Consolidated
Sales						
Third parties	1,307	21,936	936	38	-	24,217
Inter-segment	5,992	543	9	64	(6,608)	-
Total sales	7,299	22,479	945	102	(6,608)	24,217
Operating expenses and total cost of purchases	1,993	13,248	760	35	(6,600)	9,436
Depreciation, depletion and amortization	517	271	6	12	-	806
Interest expense	39	201	1	85	(106)	220
Income tax expense	393	826	11	13	1	1,244
Net income	1,067	1,936	105	78	(91)	3,095
Total assets	17,262	16,492	331	3,133	(8,068)	29,150
Capital expenditures	1,461	793	30	17	-	2,301

Geographical segments

	For the three months ended September 30, 2005	**For the three months ended September 30, 2004**	**For the nine months ended September 30, 2005**	**For the nine months ended September 30, 2004**
Sales of crude oil within Russia	48	38	106	139
Export of crude oil and sales of oil by foreign subsidiaries	4,701	3,250	12,302	8,118
Sales of refined product within Russia	1,961	1,322	4,824	3,252
Export of refined product and sales of refined products by foreign subsidiaries	8,730	4,464	20,512	10,787
Sales of chemicals within Russia	113	86	342	240
Export of chemicals and sales of chemicals by foreign subsidiaries	213	237	863	688
Other sales within Russia	155	158	625	499
Other export sales and other sales of foreign subsidiaries	268	185	664	494
Total sales	**16,189**	**9,740**	**40,238**	**24,217**

For the three months ended September 30, 2005

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	58	2,431	13,700	-	16,189
Inter-segment	2,813	5,991	7	(8,811)	-
Total sales	2,871	8,422	13,707	(8,811)	16,189
Operating expenses and total cost of purchases	345	3,292	12,054	(8,757)	6,934
Depletion, depreciation and amortization	109	164	63	-	336
Interest expense	1	41	29	(9)	62
Income tax expense	225	496	55	-	776
Net income	837	1,318	254	(198)	2,211
Total assets	8,911	20,320	11,404	(4,308)	36,327
Capital expenditures	207	507	221	-	935

(Millions of US dollars, unless otherwise noted)

Note 18. Segment information (continued)

For the three months ended September 30, 2004

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	115	1,970	7,655	-	9,740
Inter-segment	1,296	3,375	2	(4,673)	-
Total sales	1,411	5,345	7,657	(4,673)	9,740
Operating expenses and total cost of purchases	276	1,688	6,478	(4,668)	3,774
Depletion, depreciation and amortization	107	144	41	-	292
Interest expense	4	64	25	(16)	77
Income tax expense	97	417	19	-	533
Net income	134	1,137	252	(124)	1,399
Total assets	7,516	16,696	8,901	(3,963)	29,150
Capital expenditures	239	397	69	-	705

For the nine months ended September 30, 2005

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	192	6,212	33,834	-	40,238
Inter-segment	6,433	15,247	15	(21,695)	-
Total sales	6,625	21,459	33,849	(21,695)	40,238
Operating expenses and total cost of purchases	1,026	7,761	29,370	(21,402)	16,755
Depletion, depreciation and amortization	298	452	187	-	937
Interest expense	10	120	81	(32)	179
Income tax expense	388	1,280	135	-	1,803
Net income	1,447	3,288	609	(543)	4,801
Total assets	8,911	20,320	11,404	(4,308)	36,327
Capital expenditures	782	1,508	628	-	2,918

For the nine months ended September 30, 2004

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	354	5,059	18,804	-	24,217
Inter-segment	3,410	8,485	12	(11,907)	-
Total sales	3,764	13,544	18,816	(11,907)	24,217
Operating expenses and total cost of purchases	874	4,666	15,787	(11,891)	9,436
Depletion, depreciation and amortization	289	400	117	-	806
Interest expense	17	182	67	(46)	220
Income tax expense	189	993	62	-	1,244
Net income	378	2,397	489	(169)	3,095
Total assets	7,516	16,696	8,901	(3,963)	29,150
Capital expenditures	730	1,223	348	-	2,301

Note 19. Contingencies

Litigation and claims

On November 27, 2001, Archangel Diamond Corporation ("ADC"), a Canadian diamond development company, filed a lawsuit in the District Court of Denver, Colorado, against OAO "Arkhangelskgeoldobycha" ("AGD"), a Group company, and the Company (together the "Defendants"). ADC claims, among other things, that the Defendants interfered with the transfer of a diamond exploration license to Almazny Bereg, a joint venture between ADC and AGD. The total damages claimed by ADC are approximately $4.8 billion, including compensatory damages of $1.2 billion and punitive damages of $3.6 billion. On October 15, 2002, the District Court of Denver, Colorado dismissed ADC's action against the Defendants based on lack of personal jurisdiction. On November 22, 2002, the Denver District Court denied ADC's request for reconsideration of the Court's October 15th order dismissing the case. ADC subsequently filed an appeal on November 27, 2002 with the Court of Appeals in the State of Colorado. On March 25, 2004, the Court of Appeals upheld the October 15, 2002 decision of the District Court. On April 17, 2004, ADC filed a motion for rehearing that was denied on June 17, 2004. ADC then filed a petition for writ of certiorari with the Colorado Supreme Court on July 16, 2004. On January 10, 2005, the Colorado Supreme Court granted certiorari on a narrow issue: whether the Court of Appeals erred by concluding that a trial court may decide a motion to dismiss for lack of personal jurisdiction by weighing and resolving factual issues without an evidentiary hearing. The Colorado Supreme Court declined to review ADC's other requested issue concerning jurisdiction. On November 21, 2005, the Colorado Supreme Court affirmed the lower courts' findings that no specific jurisdiction exists over the Defendants. By virtue of this finding, AGD (the holder of the diamond exploration license) was dismissed from the lawsuit. The Supreme Court found however, that the trial court erred by not holding an evidentiary hearing concerning the existence of general jurisdiction, which is whether the Company had systematic and continuous contacts in the State of Colorado at the time the lawsuit was filed. Therefore, this lawsuit has been remanded to the trial court to hold an evidentiary hearing on the issue of general jurisdiction. No timetable has been established for the proceedings in the trial court. Management does not believe that the ultimate resolution of this matter will have a material adverse effect on the Group's financial condition.

On February 20, 2004, the Stockholm District Court overturned the decision of the Arbitral Tribunal of the Arbitration Institute of the Stockholm Chamber of Commerce made on June 25, 2001 dismissing ADC's action against AGD based on lack of jurisdiction. ADC's lawsuit against AGD was initially filed with the Arbitral Tribunal of the Arbitration Institute of the Stockholm Chamber of Commerce claiming alleged non-performance under an agreement between the parties and its obligation to transfer the diamond exploration license to Almazny Bereg. This lawsuit claimed compensation of damages amounting to $492 million. In March 2004, AGD filed an appeal against the Stockholm District Court decision with the Swedish Court of Appeals. On November 15, 2005, the Swedish Court of Appeals denied AGD's appeal and affirmed the Stockholm District Court decision. On December 13, 2005, AGD filed an appeal against the Swedish Court of Appeals decision with the Swedish Supreme Court. The decision of the Swedish Supreme Court is expected to be issued during 2006. Management does not believe that the ultimate resolution of this matter will have a material adverse effect on the Group's financial condition.

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

Note 19. Contingencies (continued)

Taxation environment

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

The regional organizational structure of the Russian Federation tax authorities and the regional judicial system can mean that taxation issues successfully defended in one region may be unsuccessful in another region. The tax authorities in each region may have a different interpretation of similar taxation issues. There is however some degree of direction provided from the central authority based in Moscow on particular taxation issues.

The Group has implemented tax planning and management strategies based on existing legislation at the time of implementation. The Group is subject to tax authority audits on an ongoing basis, as is normal in the Russian environment and other republics of the former Soviet Union, and, at times, the authorities have attempted to impose additional significant taxes on the Group. Management believes that it has adequately met and provided for tax liabilities based on its interpretation of existing tax legislation. However, the relevant tax authorities may have differing interpretations and the effects on the financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

“Income tax expense” and “Taxes other than income taxes” in the consolidated statement of income include $163 million in relation to the results of tax audits of the Group companies for periods prior to the 2004 financial year.

Note 20. Subsequent events

Business combinations

During the period from October 14 to December 5, 2005, a Group company acquired 100% of the share capital of Nelson Resources Limited for $1.9 billion. Nelson Resources Limited is an exploration and production company operating in Kazakhstan.

In order to finance this acquisition a Group company obtained a bridging finance loan facility from Citibank of up to $2 billion for a term of six months. Borrowings under this loan facility bore interest at LIBOR plus 0.5% per annum. Subsequently the Group company converted this bridging loan facility into a three-year syndicated loan facility of $1.9 billion with an interest rate of LIBOR plus 0.7% per annum.

In November 2005, a Group company acquired the remaining 50% of the share capital of ZAO SeverTEK for $322 million from Neste Oil Corporation (including $98 million repayment of ZAO SeverTEK 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.