OAO LUKOIL

CONSOLIDATED FINANCIAL STATEMENTS

(prepared in accordance with US GAAP)

As of December 31, 2006 and 2005
and for each of the years in the three year period
ended December 31, 2006

Independent Auditors' Report

The Board of Directors of OAO LUKOIL:

We have audited the accompanying consolidated balance sheets of OAO LUKOIL and its subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the management of OAO LUKOIL. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

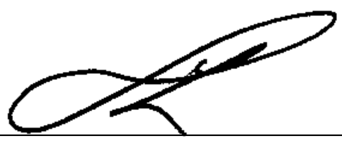
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OAO LUKOIL and its subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

KPMG Limited

KPMG Limited
Moscow, Russian Federation
April 19, 2007

OAO LUKOIL
Consolidated Balance Sheets
As of December 31, 2006 and 2005
(Millions of US dollars, unless otherwise noted)

	Note	2006	2005
Assets			
Current assets			
Cash and cash equivalents	3	752	1,650
Short-term investments		44	111
Accounts and notes receivable, net	5	5,158	5,533
Inventories	6	3,444	2,619
Prepaid taxes and other expenses		3,693	2,107
Other current assets		406	287
Assets held for sale	10	75	190
Total current assets		**13,572**	**12,497**
Investments	7	1,442	1,110
Property, plant and equipment	8	31,316	25,464
Deferred income tax assets	13	362	181
Goodwill and other intangible assets	9	791	680
Other non-current assets		754	413
Total assets		**48,237**	**40,345**
Liabilities and Stockholders' equity			
Current liabilities			
Accounts payable		2,759	2,167
Short-term borrowings and current portion of long-term debt	11	1,377	853
Taxes payable		1,663	2,087
Other current liabilities		1,132	729
Total current liabilities		**6,931**	**5,836**
Long-term debt	12, 16	4,807	4,137
Deferred income tax liabilities	13	2,116	1,830
Asset retirement obligations	8	608	387
Other long-term liabilities		352	332
Minority interest in subsidiary companies		523	1,019
Total liabilities		**15,337**	**13,541**
Stockholders' equity	15		
Common stock		15	15
Treasury stock, at cost		(1,098)	(527)
Additional paid-in capital		3,943	3,730
Retained earnings		30,061	23,586
Accumulated other comprehensive loss		(21)	-
Total stockholders' equity		**32,900**	**26,804**
Total liabilities and stockholders' equity		**48,237**	**40,345**



President of OAO LUKOIL
Alekperov V.Y.

Chief accountant of OAO LUKOIL
Khoba L.N.

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

OAO LUKOIL
Consolidated Statements of Income
For the years ended December 31, 2006, 2005 and 2004
(Millions of US dollars, unless otherwise noted)

	Note	2006	2005	2004
Revenues				
Sales (including excise and export tariffs)	23	67,684	55,774	33,845
Equity share in income of affiliates	7	425	441	213
Total revenues		**68,109**	**56,215**	**34,058**
Costs and other deductions				
Operating expenses		(4,657)	(3,487)	(2,880)
Cost of purchased crude oil, petroleum and chemical products		(22,374)	(19,398)	(10,124)
Transportation expenses		(3,863)	(3,519)	(2,784)
Selling, general and administrative expenses		(2,885)	(2,578)	(2,024)
Depreciation, depletion and amortization		(1,851)	(1,315)	(1,075)
Taxes other than income taxes	13	(8,075)	(6,334)	(3,505)
Excise and export tariffs		(13,570)	(9,931)	(5,248)
Exploration expenses		(209)	(317)	(171)
(Loss) gain on disposals and impairments of assets		(148)	52	(213)
Income from operating activities		**10,477**	**9,388**	**6,034**
Interest expense		(302)	(275)	(300)
Interest and dividend income		111	96	180
Currency translation gain (loss)		169	(134)	135
Other non-operating (expense) income		(118)	(44)	21
Minority interest		(80)	(121)	(62)
Income before income taxes		**10,257**	**8,910**	**6,008**
Current income taxes		(2,906)	(2,301)	(1,614)
Deferred income taxes		133	(166)	(146)
Total income tax expense	13	**(2,773)**	**(2,467)**	**(1,760)**
Net income		**7,484**	**6,443**	**4,248**
Per share of common stock (US dollars):				
Basic	15	9.06	7.91	5.20
Diluted	15	9.04	7.79	5.13

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

OAO LUKOIL
Consolidated Statements of Stockholders' Equity and Comprehensive Income
For the years ended December 31, 2006, 2005 and 2004
(Millions of US dollars, unless otherwise noted)

	2006		2005		2004	
	Stockholders' equity	Comprehensive income	Stockholders' equity	Comprehensive income	Stockholders' equity	Comprehensive income
Common stock						
Balance as of January 1	15		15		15	
Balance as of December 31	**15**		**15**		**15**	
Treasury stock						
Balance as of January 1	(527)		(706)		(435)	
Stock purchased	(782)		-		(502)	
Stock disposed	211		179		231	
Balance as of December 31	**(1,098)**		**(527)**		**(706)**	
Additional paid-in capital						
Balance as of January 1	3,730		3,564		3,522	
Premium on non-outstanding shares issued	22		47		-	
Proceeds from sale of treasury stock in excess of carrying amount	191		119		42	
Balance as of December 31	**3,943**		**3,730**		**3,564**	
Retained earnings						
Balance as of January 1	23,586		17,938		14,371	
Net income	7,484	7,484	6,443	6,443	4,248	4,248
Dividends on common stock	(1,009)	-	(795)	-	(681)	-
Balance as of December 31	**30,061**		**23,586**		**17,938**	
Accumulated other comprehensive loss, net of tax						
Balance as of January 1	-		-		(1)	
Foreign currency translation adjustment	-	-	-	-	1	1
Effect of initial adoption of SFAS No. 158	(21)	-	-	-	-	-
Balance as of December 31	**(21)**		**-**		**-**	
Total comprehensive income for the year		7,484		6,443		4,249
Total stockholders' equity as of December 31	**32,900**		**26,804**		**20,811**	

	Share activity		
	2006	2005	2004
	(thousands of shares)	(thousands of shares)	(thousands of shares)
Common stock, issued			
Balance as of January 1	850,563	850,563	850,563
Balance as of December 31	**850,563**	**850,563**	**850,563**
Treasury stock			
Balance as of January 1	(21,667)	(33,884)	(26,336)
Purchase of treasury stock	(9,017)	-	(17,846)
Disposal of treasury stock	7,052	12,217	10,298
Balance as of December 31	**(23,632)**	**(21,667)**	**(33,884)**

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

OAO LUKOIL
Consolidated Statements of Cash Flows
For the years ended December 31, 2006, 2005 and 2004
(Millions of US dollars)

	Note	2006	2005	2004
Cash flows from operating activities				
Net income		**7,484**	**6,443**	**4,248**
Adjustments for non-cash items:				
Depreciation, depletion and amortization		1,851	1,315	1,075
Equity share in income of affiliates		(106)	(397)	(169)
Dry hole costs		91	170	42
Loss (gain) on disposals and impairments of assets		148	(52)	213
Deferred income taxes		(133)	166	146
Non-cash currency translation loss (gain)		86	(26)	(4)
Non-cash investing activities		(123)	(133)	(123)
All other items – net		(38)	151	97
Changes in operating assets and liabilities:				
Accounts and notes receivable		340	(1,314)	(694)
Short-term loans receivable of a banking subsidiary		48	(23)	(101)
Net movements of customers deposits placed in a banking subsidiary		(11)	49	(90)
Inventories		(816)	(735)	(571)
Accounts payable		592	245	306
Taxes payable		(430)	705	310
Other current assets and liabilities		(1,344)	(467)	(505)
Net cash provided by operating activities		**7,639**	**6,097**	**4,180**
Cash flows from investing activities				
Capital expenditures		(6,426)	(3,982)	(3,248)
Proceeds from sale of property, plant and equipment		310	51	99
Purchases of investments		(312)	(242)	(540)
Proceeds from sale of investments		216	234	242
Sale of interests in subsidiaries and affiliated companies		71	588	183
Acquisitions of subsidiaries and minority shareholding interest (including advances related to these acquisitions), net of cash acquired		(1,374)	(2,874)	(477)
Net cash used in investing activities		**(7,515)**	**(6,225)**	**(3,741)**
Cash flows from financing activities				
Net movements of short-term borrowings		700	(638)	(170)
Proceeds from issuance of long-term debt		1,092	2,474	1,191
Principal repayments of long-term debt		(1,077)	(704)	(778)
Dividends paid		(1,007)	(746)	(661)
Financing from related party		-	101	-
Purchase of treasury stock		(782)	-	(502)
Proceeds from sale of treasury stock		-	46	273
Other – net		15	6	(3)
Net cash (used in) provided by financing activities		**(1,059)**	**539**	**(650)**
Effect of exchange rate changes on cash and cash equivalents		37	(18)	33
Net (decrease) increase in cash and cash equivalents		**(898)**	**393**	**(178)**
Cash and cash equivalents at beginning of year		1,650	1,257	1,435
Cash and cash equivalents at end of year	**3**	**752**	**1,650**	**1,257**

Supplemental disclosures of cash flow information			
Interest paid	377	296	291
Income taxes paid	2,980	2,402	1,803

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

Note 1. Organization and environment

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

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

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

Business and economic environment

The Russian Federation has been experiencing political and economic change, which has affected and will continue to affect the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks, which do not typically exist in other markets.

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

Basis of preparation

These consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Note 2. Summary of significant accounting policies

Principles of consolidation

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

Note 2. Summary of significant accounting policies (continued)

Use of estimates

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

Revenue

Revenues from the production and sale of crude oil and petroleum products are recognized when title passes to customers. Revenues include excise on petroleum products sales and duties on export sale of crude oil and petroleum products.

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

Foreign currency translation

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

For operations in the Russian Federation, hyperinflationary economies and other 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 statement 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 December 31, 2006, 2005 and 2004, exchange rates of 26.33, 28.78 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.

Cash and cash equivalents

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

Note 2. Summary of significant accounting policies (continued)

Cash with restrictions on immediate use

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

Accounts and notes receivable

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

Inventories

Inventories, consisting primarily of stocks of crude oil, petroleum products and materials and supplies, are stated at the lower of cost or market value. Cost is determined using an "average cost" method.

Investments

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

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

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

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

Property, plant and equipment

Oil and gas properties are accounted for using the successful efforts method of accounting whereby property acquisitions, successful exploratory wells, all development costs, and support equipment and facilities are capitalized. Unsuccessful exploratory wells are expensed when a well is determined to be non-productive. Other exploratory expenditures, including geological and geophysical costs are expensed as incurred.

Note 2. Summary of significant accounting policies (continued)

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

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

Production and related overhead costs are expensed as incurred.

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

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

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

Asset retirement obligations

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

Goodwill and other intangible assets

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

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

Note 2. Summary of significant accounting policies (continued)

Impairment of long-lived assets

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

Deferred income taxes

Deferred income tax assets and liabilities are recognized in respect of future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purposes of the consolidated financial statements and their respective tax bases and in respect of operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse and the assets be recovered and liabilities settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of income in the reporting period which includes the enactment date.

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

Interest-bearing borrowings

Interest-bearing borrowings are initially recorded at the value of net proceeds received. Any difference between the net proceeds and the redemption value is amortized at a constant rate over the term of the borrowing. Amortization is included in the consolidated statement of income each year and the carrying amounts are adjusted as amortization accumulates.

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

Pension benefits

The expected costs in respect of pension obligations of Group companies are determined by an independent actuary. Obligations in respect of each employee are accrued over the reporting periods during which the employee renders service in the Group.

Note 2. Summary of significant accounting policies (continued)

Treasury stock

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

Earnings per share

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

Contingencies

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

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

Environmental expenditures

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

Use of derivative instruments

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

Note 2. Summary of significant accounting policies (continued)

Recent accounting pronouncements

In February 2007, FASB issued SFAS No. 159, *"The Fair Value Option for Financial Assets and Financial Liabilities."* This Statement expands the possibility of using fair value measurements and permits enterprises to choose to measure certain financial assets and financial liabilities at fair value. Enterprises shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent period. The Statement is effective in the first quarter 2008. The Group is currently assessing the effect of adoption of SFAS No. 159.

In September 2006, the FASB issued SFAS No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R).*" This Statement requires an employer that sponsors one or more single-employer defined benefit plans to: (a) Recognize the funded status of a benefit plan in its statement of financial position; (b) Recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost; (c) Measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position (with limited exceptions); (d) Disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation. The provisions of this Statement are effective December 31, 2006, except for the requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end, which is effective December 31, 2008. The adoption of the provisions of SFAS No. 158 did not have a material impact on the Group's results of operations, financial position or cash flows (refer to Note 14 "Pension benefits").

In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurements,"* which establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. This Statement does not require any new fair value measurements but is expected to increase the consistency of those measurements. The Group is required to adopt the provisions of SFAS No. 157 in the first quarter 2008 and does not expect any material impact on its financial statements upon adoption.

In June 2006, the FASB issued FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109"* (FIN 48). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *"Accounting for Income Taxes."* The Group is required to adopt the provisions of FIN 48 in the first quarter 2007 and is currently assessing the effect of adoption.

In June 2006, the FASB ratified the consensus reached by the EITF on Issue No. 06-3, *"How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)."* The consensus requires disclosure of either the gross or net presentation, and any such taxes reported on a gross basis should be disclosed in the interim and annual financial statements. The Group adopted the provisions of EITF Issue No. 06-3 in 2006. The adoption of the Issue did not have a material impact on the Group's financial statements.

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 as of each reporting date, and to be expensed over the applicable vesting period. The adoption of the provisions of SFAS No. 123(R) during 2006 did not have a material impact on the Group's results of operations, financial position or cash flows.

(Millions of US dollars, except as indicated)

Note 3. Cash and cash equivalents

	As of December 31, 2006	As of December 31, 2005
Cash held in Russian rubles	119	346
Cash held in other currencies	321	905
Cash of a banking subsidiary in other currencies	130	102
Cash held in related party banks in Russian rubles	97	173
Cash held in related party banks in other currencies	85	124
Total cash and cash equivalents	**752**	**1,650**

Note 4. Non-cash transactions

The consolidated statement of cash flows excludes the effect of non-cash transactions, which are described in the following table:

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
Non-cash investing activity	123	133	123
Non-cash acquisition of minority interest in a subsidiary	314	-	-
Settlement of bond liability with the Company's common stock	91	300	-
Total non-cash transactions	**528**	**433**	**123**

The following table shows the effect of non-cash transactions on investing activity:

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
Net cash used in investing activity	7,515	6,225	3,741
Non-cash acquisition of minority interest in a subsidiary	314	-	-
Non-cash investing activity	123	133	123
Total investing activity	**7,952**	**6,358**	**3,864**

Note 5. Accounts and notes receivable, net

	As of December 31, 2006	As of December 31, 2005
Trade accounts and notes receivable (net of provisions of $84 million and $80 million as of December 31, 2006 and 2005, respectively)	3,873	3,410
Current VAT and excise recoverable	1,097	1,772
Short-term loans receivable of a banking subsidiary	-	48
Other current accounts receivable (net of provisions of $38 million and $46 million as of December 31, 2006 and 2005, respectively)	188	303
Total accounts and notes receivable	**5,158**	**5,533**

Note 6. Inventories

	As of December 31, 2006	As of December 31, 2005
Crude oil and petroleum products	2,713	1,975
Materials for extraction and drilling	323	250
Materials and supplies for refining	28	29
Other goods, materials and supplies	380	365
Total inventories	**3,444**	**2,619**

(Millions of US dollars, except as indicated)

Note 7. Investments

	As of December 31, 2006	As of December 31, 2005
Investments in equity method affiliates and joint ventures	1,157	934
Long-term loans given by non-banking subsidiaries	261	165
Other long-term investments	24	11
Total long-term investments	**1,442**	**1,110**

Investments in "equity method" affiliates and joint ventures

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

	Year ended December 31, 2006		Year ended December 31, 2005		Year ended December 31, 2004	
	Total	Group's share	Total	Group's share	Total	Group's share
Revenues	2,367	1,251	2,972	1,383	2,885	1,313
Income before income taxes	1,315	690	1,214	605	761	392
Less income taxes	(529)	(265)	(338)	(164)	(362)	(179)
Net income	**786**	**425**	**876**	**441**	**399**	**213**

	As of December 31, 2006		As of December 31, 2005	
	Total	Group's share	Total	Group's share
Current assets	1,668	829	2,650	859
Property, plant and equipment	2,140	1,168	2,171	1,129
Other non-current assets	53	25	71	32
Total assets	3,861	2,022	4,892	2,020
Short-term debt	161	70	1,599	347
Other current liabilities	511	264	590	249
Long-term debt	1,003	518	904	487
Other non-current liabilities	24	13	6	3
Net assets	**2,162**	**1,157**	**1,793**	**934**

(Millions of US dollars, except as indicated)

Note 8. Property, plant and equipment and asset retirement obligations

	At cost		Net	
	As of December 31, 2006	As of December 31, 2005	As of December 31, 2006	As of December 31, 2005
Exploration and Production:				
Western Siberia	16,911	14,237	8,673	6,669
European Russia	15,378	13,245	10,277	8,122
International	5,238	4,527	4,594	4,150
Total	37,527	32,009	23,544	18,941
Refining, Marketing, Distribution and Chemicals:				
Western Siberia	19	27	16	22
European Russia	7,281	6,374	4,700	3,921
International	3,988	3,537	2,605	2,254
Total	11,288	9,938	7,321	6,197
Other:				
Western Siberia	157	159	72	78
European Russia	307	215	267	190
International	140	73	112	58
Total	604	447	451	326
Total property, plant and equipment	**49,419**	**42,394**	**31,316**	**25,464**

As of December 31, 2006 and 2005, the asset retirement obligation amounted to $618 million and $397 million, respectively, of which $10 million was included in “Other current liabilities” in the consolidated balance sheets as of each balance sheet date. During 2006 and 2005, asset retirement obligations changed as follows:

	2006	2005
Asset retirement obligations as of January 1	397	317
Accretion expense	39	30
New obligations	113	40
Changes in estimates of existing obligations	39	26
Spending on existing obligations	(8)	(7)
Property dispositions	(3)	(4)
Foreign currency translation and other adjustments	41	(5)
Asset retirement obligations as of December 31	**618**	**397**

Note 9. Goodwill and other intangible assets

The carrying value of goodwill and other intangible assets as of December 31, 2006 and 2005 was as follows:

	As of December 31, 2006	As of December 31, 2005
Amortized intangible assets		
Software	327	205
Licenses and other assets	52	58
Goodwill	412	417
Total goodwill and other intangible assets	**791**	**680**

All goodwill amounts relate to the refining, marketing and distribution segment.

(Millions of US dollars, except as indicated)

Note 10. Dispositions of subsidiaries and assets

In December 2006, a Group company completed the sale of its 100% interest in LUKOIL Shelf Limited and LUKOIL Overseas Orient Limited for $40 million. LUKOIL Shelf Limited and LUKOIL Overseas Orient Limited render drilling services in the Caspian Sea shelf and own the Astra jack-up rig.

In May 2006, the Group completed the sale of its remaining 21% ownership interest in OAO Bank Petrocommerce for $33 million. The sale was made to a related party, whose management and directors include members of the Group's management and Board of Directors. The carrying value of this investment as of the date of transaction was equal to the selling price.

In December 2005, the Company made a decision to sell ten tankers. A Group company finalized the sale of eight tankers in May 2006 for a price that approximated their carrying value of $190 million. As of December 31, 2005, the Group classified these tankers as assets held for sale in the consolidated balance sheet. The sale of the remaining two tankers is expected to be finalized in July 2007 for a price that approximates their carrying value of $75 million. As of December 31, 2006, the Group classified these tankers as assets held for sale in the consolidated balance sheet.

Note 11. Short-term borrowings and current portion of long-term debt

	As of December 31, 2006	As of December 31, 2005
Short-term borrowings from third parties	949	315
Short-term borrowings from related parties	52	1
Current portion of long-term debt	376	537
Total short-term borrowings and current portion of long-term debt	**1,377**	**853**

Short-term borrowings are unsecured and primarily payable in US dollars. The weighted-average interest rate on short-term borrowings from third parties was 5.64% and 5.55% per annum as of December 31, 2006 and 2005, respectively.

Note 12. Long-term debt

	As of December 31, 2006	As of December 31, 2005
Long-term loans and borrowings from third parties (including loans from banks in the amount of $3,204 million and $4,107 million as of December 31, 2006 and 2005, respectively)	3,277	4,233
Long-term loans and borrowings from related parties	1,043	65
3.5% Convertible US dollar bonds, maturing 2007	4	94
7.25% Russian ruble bonds, maturing 2009	228	208
7.10% Russian ruble bonds, maturing 2011	304	-
7.40% Russian ruble bonds, maturing 2013	228	-
Capital lease obligations	99	74
Total long-term debt	5,183	4,674
Current portion of long-term debt	(376)	(537)
Total non-current portion of long-term debt	**4,807**	**4,137**

Note 12. Long-term debt (continued)

Long-term loans and borrowings

Long-term loans and borrowings are primarily repayable in US dollars, maturing from 2007 through 2035. Approximately 14% of this debt is secured by export sales and property, plant and equipment. The weighted-average interest rate on long-term loans and borrowings from third parties was 6.23% and 5.82% per annum as of December 31, 2006 and 2005, respectively.

A Group company has an unsecured syndicated loan agreement, arranged by Citibank, ABN AMRO Bank, BNP Paribas, Sumitomo Banking Corporation and Societe Generale with an outstanding amount of $1,934 million as of December 31, 2006, maturing in 2008. Borrowings under this agreement bear interest at LIBOR plus 0.7% per annum. This loan facility was used for financing the acquisition of Nelson Resources Limited ("Nelson") (refer to Note 17 "Business combinations").

The Company has a secured syndicated loan agreement, arranged by ABN AMRO Bank and Citibank, with an outstanding amount of $286 million as of December 31, 2006, maturing in 2008. Borrowings under this agreement bear interest at LIBOR plus 1.35% per annum.

A Group company has an unsecured syndicated loan agreement with CALYON and ABN AMRO with an outstanding amount of $236 million as of December 31, 2006. Borrowings under this agreement bear interest at LIBOR plus 0.95% per annum and have maturity dates up to 2010.

A Group company has a secured loan agreement, arranged by Credit Suisse, supported by an Overseas Private Investment Corporation guarantee, with an outstanding amount of $213 million as of December 31, 2006. Borrowings under this agreement bear interest at LIBOR plus 4.8% per annum and have maturity dates up to 2015.

A Group company has a number of loan agreements with Natexis bank with a total outstanding amount of $165 million as of December 31, 2006. These agreements have maturity dates up to 2009. Borrowings under these agreements bear interest at a range from LIBOR plus 0.9% to LIBOR plus 2.5% per annum.

A Group company has a loan agreement with Vnesheconombank with an outstanding amount of $129 million as of December 31, 2006. Borrowings under this agreement bear interest at a fixed rate of 3% per annum and have maturity dates up to 2011.

Group companies have a number of loan agreements with International Finance Corporation with a total outstanding amount of $107 million as of December 31, 2006. These agreements have maturity dates up to 2011. Borrowings under these agreements bear interest at a range from LIBOR plus 1.6% to LIBOR plus 2.5% per annum.

As of December 31, 2006 the Group has a number of other fixed rate loan agreements with a number of banks and organizations totaling $119 million, maturing from 2007 to 2017. The weighted average interest rate under these loans was 2.83% per annum.

As of December 31, 2006 the Group has a number of other floating rate loan agreements with a number of banks and organizations totaling $88 million, maturing from 2007 to 2018. The weighted average interest rate under these loans was 5.38% per annum.

A Group company has a number of loan agreements with ConocoPhillips, the Group's related party, with an outstanding amount of $1,043 million as of December 31, 2006. Borrowings under these agreements bear interest at fixed rate ranging from 6.8% to 8.2% per annum and have maturity dates up to 2035. These agreements are a part of the Company's broad-based strategic alliance with ConocoPhillips and this financing is used to develop oil production and distribution infrastructure in the Timan-Pechora region of the Russian Federation.

Note 12. 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 dates. 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 December 31, 2006, bondholders had converted 346,259 bonds into 16.8 million shares of common stock of the Company. Subsequent to period end bondholders had not converted any additional bonds.

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

Russian ruble bonds

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

In November 2004, the Company issued 6 million non-convertible bonds with a face 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.

Maturities of long-term debt

Annual maturities of total long-term debt during the next five years, including the portion classified as current, are $376 million in 2007, $2,300 million in 2008, $380 million in 2009, $288 million in 2010, $404 million in 2011 and $1,435 million thereafter.

Note 13. Taxes

The Group is taxable in a number of jurisdictions within and outside of the Russian Federation and, as a result, is subject to a variety of taxes as established under the statutory provisions of each jurisdiction.

The total cost of taxation to the Group is reported in the consolidated statement of income as "Total income tax expense" for income taxes, as "Excise and export tariffs" for excise taxes, export tariffs and petroleum products sales taxes and as "Taxes other than income taxes" for other types of taxation. In each category taxation is made up of taxes levied at various rates in different jurisdictions.

Operations in the Russian Federation are subject to Federal and city income tax rates that total 9.5% and a regional income tax rate that varies from 10.5% to 14.5% at the discretion of the individual regional administration. The combined statutory tax rate in the Russian Federation is 24%.

(Millions of US dollars, except as indicated)

Note 13. Taxes (continued)

There are not currently, and have not been during the three years ended December 31, 2006, any provisions in the taxation legislation of the Russian Federation to permit the Group to reduce taxable profits in a Group company by offsetting tax losses in another Group company against such profits. Tax losses of a Group company in the Russian Federation may, however, be used fully or partially to offset taxable profits in the same company in any of the ten years following the year of loss, subject to the restriction that no more than 50% of the taxable profit in 2006 can be reduced by loss relief. Starting from January 1, 2007 this restriction will no longer apply.

Domestic and foreign components of income before income taxes were:

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
Domestic	9,215	7,992	5,167
Foreign	1,042	918	841
Income before income taxes	**10,257**	**8,910**	**6,008**

Domestic and foreign components of income taxes were:

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
Current			
Domestic	2,419	2,194	1,511
Foreign	487	107	103
Current income tax expense	2,906	2,301	1,614
Deferred			
Domestic	(40)	61	76
Foreign	(93)	105	70
Deferred income tax (benefit) expense	(133)	166	146
Total income tax expense	**2,773**	**2,467**	**1,760**

The following table is a reconciliation of the amount of income tax expense that would result from applying the Russian combined statutory income tax rate to income before income taxes to total income taxes:

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
Income before income taxes	10,257	8,910	6,008
Notional income tax at Russian statutory rate	2,462	2,138	1,442
Increase (reduction) in income tax due to:			
Non-deductible items, net	476	407	301
Foreign rate differences	47	(12)	4
Domestic rate differences	(232)	(125)	(23)
Foreign currency effect	5	(5)	6
Change in valuation allowance	15	64	30
Total income tax expense	**2,773**	**2,467**	**1,760**

(Millions of US dollars, except as indicated)

Note 13. Taxes (continued)

Taxes other than income taxes were:

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
Mineral extraction tax	7,281	5,590	2,971
Social taxes and contributions	356	324	330
Property tax	247	233	111
Other taxes and contributions	191	187	93
Taxes other than income taxes	**8,075**	**6,334**	**3,505**

Deferred income taxes are included in the consolidated balance sheets as follows:

	As of December 31, 2006	As of December 31, 2005
Other current assets	68	52
Deferred income tax assets – non-current	362	181
Other current liabilities	(69)	(18)
Deferred income tax liabilities – non-current	(2,116)	(1,830)
Net deferred income tax liability	**(1,755)**	**(1,615)**

The following table sets out the tax effects of each type of temporary differences which give rise to deferred income tax assets and liabilities:

	As of December 31, 2006	As of December 31, 2005
Accounts receivable	27	15
Long-term liabilities	209	145
Inventories	8	5
Property, plant and equipment	141	131
Accounts payable	24	27
Long-term investments	3	3
Operating loss carry forwards	312	121
Other	104	69
Total gross deferred income tax assets	828	516
Less valuation allowance	(149)	(134)
Deferred income tax assets	**679**	**382**
Property, plant and equipment	(2,064)	(1,747)
Accounts payable	(64)	(8)
Accounts receivable	-	(9)
Long-term liabilities	(162)	(117)
Inventories	(42)	(30)
Long-term investments	(16)	(66)
Other	(86)	(20)
Deferred income tax liabilities	**(2,434)**	**(1,997)**
Net deferred income tax liability	**(1,755)**	**(1,615)**

As a result of business combinations, during 2006 the Group recognized a net deferred tax liability of $279 million.

Note 13. Taxes (continued)

As of December 31, 2006, retained earnings of foreign subsidiaries included $12,130 million for which deferred taxation has not been provided because remittance of the earnings has been indefinitely postponed through reinvestment and, as a result, such amounts are considered to be permanently invested. The amount of deferred tax liability on this amount is not practicable to calculate.

In accordance with SFAS No. 52 *"Foreign currency translation"* and SFAS No. 109, *"Accounting for Income Taxes,"* deferred tax assets and liabilities are not recognized for exchange rate effects resulting from the translation of transactions and balances from the Russian ruble to the US dollar using historical exchange rates. Also, in accordance with SFAS No. 109, no deferred tax assets or liabilities are recognized for the effects of the related statutory indexation of property, plant and equipment.

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred income tax assets are deductible, management believes it is more likely than not that Group companies will realize the benefits of the deductible temporary differences and loss carry forwards, net of existing valuation allowances as of December 31, 2006 and 2005.

As of December 31, 2006, the Group had operating loss carry forwards of $1,255 million of which $4 million expire during 2007, $4 million expire during 2008, $5 million expire during 2009, $72 million expire during 2010, $28 million expire during 2011, $12 million expire during 2012, $24 million expire during 2013, $30 million expire during 2014, $67 million expire during 2015, $387 million expire during 2016, $35 million expire during 2017, $69 million expire during 2026, and $518 million have indefinite carry forward.

Note 14. Pension benefits

The Company sponsors a post employment and post retirement benefits program. The primary component of the post employment and postretirement benefits program is a defined benefit pension plan that covers the majority of the Group's employees. This plan is administered by a non-state pension fund, LUKOIL-GARANT, and provides pension benefits primarily based on years of service and final remuneration levels. The Company also provides several long-term employee benefits such as death-in-service benefit and lump-sum payments upon retirement of a defined benefit nature and other defined benefits to certain old age and disabled pensioners who have not vested any pensions under the pension plan.

The Company's pension plan primarily consists of a defined benefit plan enabling employees to contribute a portion of their salary to the plan and at retirement to receive a lump sum amount from the Company equal to all past contributions made by the employee up to 7% of their annual salary. Employees also have the right to receive upon retirement the benefits accumulated under the previous pension plan that was replaced in December 2003. These benefits have been fixed and included in the benefit obligation as of December 31, 2006 and 2005. The amount was determined primarily based on a formula including past pensionable service and relative salaries as of December 31, 2003.

On December 31, 2006, the Group adopted the provisions of SFAS No. 158, *"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)."* This Statement requires employers to recognize the funded status of all postretirement defined benefit plans in the statement of financial position with corresponding adjustments to accumulated other comprehensive income. The adjustment to accumulated other comprehensive income at adoption represents the net unrecognized actuarial gains and unrecognized prior service costs, both of which were previously netted against the plan's funded status in the statement of financial position. These amounts will be subsequently recognized as net periodic benefit cost. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit cost in the same periods will be recognized as a component of other comprehensive income. These amounts will be subsequently recognized as a component of net periodic benefit cost on the same basis as the amounts recognized in accumulated other comprehensive income at adoption of SFAS No. 158.

(Millions of US dollars, except as indicated)

Note 14. Pension benefits (continued)

The Company uses December 31 as the measurement date for its post employment and post retirement benefits program. An independent actuary has assessed the benefit obligations as of December 31, 2006 and 2005.

The following table provides information about the benefit obligations, plan assets and actuarial assumptions used as of December 31, 2006 and 2005. The benefit obligations below represent the projected benefit obligation of the pension plan.

	2006	2005
Benefit obligations		
Benefit obligations as of January 1	202	198
Effect of exchange rate changes	18	(8)
Service cost	14	9
Interest cost	19	17
Plan amendments	12	4
Actuarial loss	13	2
Benefits paid	(20)	(20)
Benefit obligations as of December 31	**258**	**202**
Plan assets		
Fair value of plan assets as of January 1	73	63
Effect of exchange rate changes	6	(3)
Return on plan assets	9	9
Employer contributions	26	24
Benefits paid	(20)	(20)
Fair value of plan assets as of December 31	**94**	**73**
Funded status	(164)	(129)
Unamortized prior service cost	-	53
Unrecognized actuarial gain	-	(45)
Net amount recognized	**(164)**	**(121)**
Amounts recognized in the consolidated balance sheet as of December 31, 2006, under SFAS No. 158		
Accrued benefit liabilities included in “Other long-term liabilities”	(164)	-
Amounts recognized in the consolidated balance sheet as of December 31, 2005, under prior accounting rules		
Accrued benefit liabilities included in “Other long-term liabilities”	-	(121)
Assumptions:		
Discount rate	6.6%	9.2%
Expected return on plan assets	9.9%	10.0%

The effect of adoption of SFAS No. 158 on the financial statements is described below:

	Before application of SFAS No. 158	Effect of adopting SFAS No. 158	After application of SFAS No. 158
Other long-term liabilities	(137)	(27)	(164)
Accumulated other comprehensive loss	-	21	21
Deferred tax asset	-	6	6

(Millions of US dollars, except as indicated)

Note 14. Pension benefits (continued)

Included in accumulated other comprehensive loss as of December 31, 2006, are the following before-tax amounts that have not yet been recognized in net periodic benefit cost:

Unamortized prior service cost	61
Unrecognized actuarial gain	(34)

The real returns on bonds and equities are based on what is observed in the international markets over extended periods of time. In the calculation of the expected return on assets no use is made of the historical returns LUKOIL-GARANT has achieved.

In addition to the plan assets, LUKOIL-GARANT holds assets in the form of an insurance reserve. The purpose of this insurance reserve is to satisfy pension obligations should the plan assets not be sufficient to meet pension obligations. The Group’s contributions to the pension plan are determined without considering the assets in the insurance reserve.

The plans are funded on a discretionary basis through a solidarity account, which is held in trust with LUKOIL-GARANT. LUKOIL-GARANT does not allocate separately identifiable assets to the Group or its other third party clients. All funds of plan assets and other individual pension accounts are managed as a pool of investments.

The asset allocation of the investment portfolio maintained by LUKOIL-GARANT for the Group and its clients was as follows:

Type of assets	**As of December 31, 2006**	**As of December 31, 2005**
Promissory notes of Russian issuers	24%	30%
Russian corporate bonds	23%	20%
Bank deposits	9%	16%
Equity securities of Russian issuers	21%	10%
Russian state bonds	2%	9%
Shares of OAO LUKOIL	8%	5%
Shares in investment funds	8%	5%
Russian municipal bonds	1%	3%
Other assets	4%	2%
	100%	100%

The investment strategy employed by LUKOIL-GARANT includes an overall goal to attain a maximum investment return, while guaranteeing the principal amount invested. The strategy is to invest with a medium-term perspective while maintaining a level of liquidity through proper allocation of investment assets. Investment policies include rules and limitations to avoid concentrations of investments.

The investment portfolio is primarily comprised of two types of investments: securities with fixed yield and equity securities. The securities with fixed yield include mainly high yield corporate bonds and promissory notes of banks with low and medium risk ratings. Maturities range from one to three years.

Note 14. Pension benefits (continued)

The following table details the targeted investment mix for 2007 and the maximum limits on investment type.

Type of investment	**2007 Target Allocation**	**Maximum Allocation Allowed**
Russian corporate bonds	31%	50%
Promissory notes of Russian issuers	5%	50%
Equity securities of Russian issuers	28%	50%
Russian municipal bonds	31%	50%
Other, including bank deposits	5%	50%
	100%	

Components of net periodic benefit cost were as follows:

	Year ended December 31, 2006	**Year ended December 31, 2005**	**Year ended December 31, 2004**
Service cost	14	9	7
Interest cost	19	17	14
Less expected return on plan assets	(8)	(6)	(5)
Amortization of prior service cost	6	5	5
Actuarial gain	(2)	(3)	(5)
Curtailment gain	-	-	(8)
Total net periodic benefit cost	**29**	**22**	**8**

Total employer contributions for 2007 are expected to be $21 million.

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid:

	2007	**2008**	**2009**	**2010**	**2011**	**5-year period 2007-2011**	**5-year period 2012-2016**
Pension benefits	51	14	15	13	14	107	63
Other long-term employee benefits	24	13	13	13	14	77	72
Total expected benefits to be paid	**75**	**27**	**28**	**26**	**28**	**184**	**135**

Note 15. Stockholders’ equity

Common stock

	As of December 31, 2006 (thousands of shares)	**As of December 31, 2005 (thousands of shares)**
Authorized and issued common stock, par value of 0.025 Russian rubles each	850,563	850,563
Common stock held by subsidiaries, not considered as outstanding	(1,268)	(2,477)
Treasury stock	(23,632)	(21,667)
Outstanding common stock	**825,663**	**826,419**

Note 15. Stockholders' equity (continued)

Dividends and dividend limitations

Profits available for distribution to common stockholders in respect of any reporting period are determined by reference to the statutory financial statements of the Company prepared in accordance with the laws of the Russian Federation and denominated in Russian rubles. Under Russian Law, dividends are limited to the net profits of the reporting year as set out in the statutory financial statements of the Company. These laws and other legislative acts governing the rights of shareholders to receive dividends are subject to various interpretations.

The Company's net profits were 55,130 million Russian rubles, 66,327 million Russian rubles and 78,028 million Russian rubles, respectively for 2006, 2005 and 2004, pursuant to the statutory financial statements, which at the US dollar exchange rates as of December 31, 2006, 2005 and 2004 amounted to $2,094 million, $2,304 million and $2,812 million, respectively.

At the annual stockholders' meeting on June 28, 2006, dividends were declared for 2005 in the amount of 33.00 Russian rubles per common share, which at the date of the meeting was equivalent to $1.22. Dividends payable of $7 million are included in "Other current liabilities" in consolidated balance sheet as of December 31, 2006 and 2005.

At the annual stockholders' meeting on June 28, 2005, dividends were declared for 2004 in the amount of 28.00 Russian rubles per common share, which at the date of the decision was equivalent to $0.98.

At the annual stockholders' meeting on June 24, 2004, dividends were declared for 2003 in the amount of 24.00 Russian rubles per common share, which at the date of the meeting was equivalent to $0.83.

Earnings per share

The calculation of diluted earnings per share for these years was as follows:

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
Net income	7,484	6,443	4,248
Add back interest on 3.5% Convertible US dollar bonds, maturing 2007 (net of tax at effective rate)	4	26	27
Total diluted net income	7,488	6,469	4,275
Weighted average number of outstanding common shares (thousands of shares)	826,131	814,417	817,294
Add back treasury shares held in respect of convertible debt (thousands of shares)	2,557	15,957	16,847
Weighted average number of outstanding common shares, after dilution (thousands of shares)	828,688	830,374	834,141

Note 16. Financial and derivative instruments

Commodity 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 the following financial results from the use of derivative instruments: income of $183 million, expense of $171 million and expense of $55 million during 2006, 2005 and 2004, respectively. The result is included in “Cost of purchased crude oil, petroleum and chemical products” in the consolidated statements of income. The fair value of derivative contracts outstanding and recorded on the consolidated balance sheets was a net asset of $43 million and a net liability of $26 million as of December 31, 2006 and 2005, respectively.

Fair value

The fair values of cash and cash equivalents, current accounts and notes receivable, and liquid securities are approximately equal to their value as disclosed in the consolidated financial statements.

The fair value of long-term receivables included in other non-current assets approximates the amounts disclosed in the consolidated financial statements as a result of discounting using estimated market interest rates for similar financing arrangements. The fair value of long-term debt differs from the amount disclosed in the consolidated financial statements. The estimated fair value of long-term debt as of December 31, 2006 and 2005 was $5,299 million and $5,081 million, respectively, as a result of discounting using estimated market interest rates for similar financing arrangements. These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion, and interest.

Note 17. Business combinations

In June 2006, a Group company acquired 100% of the share capital of Khanty-Mansiysk Oil Corporation (“KMOC”) from Marathon Oil Corporation for $847 million (including $249 million repayment of KMOC debt), which is subject to finalisation of working capital and other adjustments in accordance with the purchase agreement. KMOC owns approximately 95% of the share capital of OAO Khantymansiysk-neftegazgeologia and 100% of the share capital of OAO Paitykh Oil and OAO Nazymgeodobycha (“KMOC subsidiaries”). KMOC’s subsidiaries operate oil and gas fields in the West Siberian region of the Russian Federation.

KMOC’s results of operations are included in the Group’s consolidated statement of income from June 2006.

(Millions of US dollars, except as indicated)

Note 17. Business combinations (continued)

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	91
Property, plant and equipment	897
Other non-current assets	38
Total assets acquired	1,026
Current liabilities	(23)
Non-current deferred tax liabilities	(133)
Long-term debt	(249)
Minority interest	(14)
Other long-term liabilities	(9)
Total liabilities assumed	(428)
Net assets acquired	**598**

During the period from October 14 to December 5, 2005, a Group company acquired 100% of the share capital of 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 addition, Nelson holds an option to acquire a 25% interest in two exploration blocks in the Kazakhstan sector of the Caspian Sea – South Zhambai and South Zaburunye. The purpose of the acquisition was to increase the Group's presence in the Kazakhstan oil and gas sector and its international oil and gas reserves. Nelson's results of operations are included in the Group's consolidated statement of income from October 14, 2005.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	170
Property, plant and equipment	2,794
Other non-current assets	55
Total assets acquired	3,019
Current liabilities	(166)
Non-current deferred tax liabilities	(769)
Long-term debt	(87)
Minority interest	(31)
Other non-current liabilities	(15)
Total liabilities assumed	(1,068)
Net assets acquired	**1,951**

In September 2006, a Group company acquired the remaining 40% of share capital of Chaparral Resources Inc., Nelson group company and the owner of 60% interest in the Karakuduk field, for $89 million. The acquisition increased the Group's ownership stake in Chaparral Resources Inc. and effective interest in the Karakuduk field to 100%.

Note 17. Business combinations (continued)

In November 2006, a Group company entered into an agreement with Mittal Investments S.A.R.L. to sell 50% of its interest in Caspian Investment Resources Ltd. ("Caspian", formerly Nelson), for $980 million. In accordance with the agreement, Mittal Investments S.A.R.L. agreed to assume a liability in the amount of approximately $160 million, which represents 50% of Caspian's outstanding debt to Group companies. The transaction is expected to be finalized in the second quarter 2007. As of December 31, 2006 Caspian is consolidated as a 100% owned subsidiary.

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%.

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 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 required approval by at least a 66.7% majority of the voting rights. Because the minority shareholder of OOO Geoilbent held substantive participating rights, the Group accounted for its investment in OOO Geoilbent using the equity method of accounting. In January 2007, a Group company acquired the remaining 34.0% of the share capital of OOO Geoilbent for $300 million, thereby increasing the Group's ownership stake in OOO Geoilbent to 100%.

In March 2005, a Group company acquired a 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.

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%.

Purchases of interests in KMOC, Nelson, Chaparral Resources Inc., OAO Primorieneftegaz, ZAO SeverTEK, OOO Geoilbent, Oy Teboil Ab, Suomen Petrooli Oy and LUKOIL Neftochim Bourgas AD did not have a material impact on the Group's consolidated operations for the period ended December 31, 2006 and 2005. Therefore, no pro-forma income statement information has been provided in these consolidated financial statements.

Note 18. 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 $529 million. The purpose of the 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. NMNG's total assets were approximately $2.6 billion and $1.9 billion as of December 31, 2006 and 2005, respectively.

(Millions of US dollars, except as indicated)

Note 18. Consolidation of Variable Interest Entity (continued)

The Group 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 is considered to be the primary beneficiary and has consolidated NMNG.

As a result of the transaction, the Group recognized gain of $152 million which is included in the consolidated statement of income for the year ended December 31, 2005.

During 2005, the Group and ConocoPhillips agreed to provide financing to NMNG by means of long-term loans in the proportion of their effective ownership interests. The loan maturities are 30 years, with the option to be extended for a further 35 years with the agreement of both parties. As of December 31, 2005, these loans bore interest at 0.1% per annum. The loan proceeds were originally accounted for by NMNG primarily as equity contributions as a result of recording the loan obligations at their present value based on market interest rates. The difference between the proceeds and the present value represented contributions to NMNG's equity.

In the second quarter of 2006, the Group and ConocoPhillips reached an agreement to amend the contractual interest rates of the loans. As of December 31, 2006 borrowings under these agreements bear fixed interest at a range from 6.8% to 8.2% per annum. As a result of the amendment, the financing received from the Group and ConocoPhillips was transferred from equity to long-term debt by NMNG.

As of December 31, 2006, the outstanding amount due to ConocoPhillips from NMNG was $848 million, which consists of a number of loans with a weighted-average interest rate of 7.91% per annum. This amount is presented within "Long-term loans and borrowings from related parties".

Note 19. Financial guarantees

The Group has entered into various guarantee arrangements. These arrangements arose in transactions related to enhancing the credit standing of an affiliated company LUKARCO and borrowings of the Group's suppliers.

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

	As of December 31, 2006	As of December 31, 2005
Guarantees of equity investees' debt	410	454
Guarantees of third parties' debt	8	19
Total	**418**	**473**

Guarantees on debt

LUKARCO, an investee recorded under the equity method of accounting has a loan facility on which $678 million was drawn as of December 31, 2006. Borrowings under this loan bear interest at LIBOR plus 2.5% per annum, maturing by May 1, 2012. To enhance the credit standing of LUKARCO, the Company guarantees 54% of the interest payment as well as the repayment of 54% of the loan at maturity. As of December 31, 2006, the total amount of the Company's guarantee was $410 million, which includes $44 million related to accrued interest on the outstanding amount. Payments are due if the Company is notified that LUKARCO is not able to fulfill its obligations at maturity date. The Company's guarantee is secured by its 54% interest in LUKARCO with the carrying value of $358 million and $259 million as of December 31, 2006 and 2005, respectively. There are no material amounts being carried as liabilities for the Group's obligations under this guarantee.

(Millions of US dollars, except as indicated)

Note 20. Commitments and contingencies

Capital expenditure, exploration and investment programs

The Group owns and operates refineries in Bulgaria (LUKOIL Neftochim Bourgas AD) and Romania (Petrotel-LUKOIL). As a result of Bulgaria and Romania joining the European Union in 2007, LUKOIL Neftochim Bourgas AD and Petrotel-LUKOIL are required to upgrade their refining plants to comply with the requirements of European Union legislation in relation to the quality of produced petroleum products and environmental protection. These requirements are stricter than existing Bulgarian and Romanian legislation. The Group estimates the amount of future capital commitment required to upgrade LUKOIL Neftochim Bourgas AD and Petrotel-LUKOIL to be approximately $750 million and $57 million, respectively.

Group companies have commitments under the terms of existing license agreements in the Russian Federation of $1,379 million over the next 5 years and of $352 million thereafter. Management believes that a significant portion of these commitments will be fulfilled by the services to be provided by Eurasia Drilling Company and ZAO Globalstroy-Engineering as discussed below.

In connection with the sale of LUKOIL-Burenie in 2004 the Group signed a five year contract for drilling services. Under the terms of the contract, drilling services of $773 million, $697 million, and $702 million will be provided by LUKOIL-Burenie (now Eurasia Drilling Company) during 2007, 2008, and 2009, respectively.

The Company has signed a four-year agreement for the provision of construction, engineering and technical services with ZAO Globalstroy-Engineering. The volume of these services is based on the Group’s capital construction program, which is re-evaluated on an annual basis. The Group estimates the amount of capital commitment under this agreement for 2007 to be approximately $1,255 million.

A Group company has commitment to purchase equipment for modernization of the petrochemical refinery in Ukraine over the next 3 years. The outstanding portion of this commitment is approximately $156 million.

Group companies have commitments for capital expenditure contributions in the amount of $343 million related to various production sharing agreements over the next 32 years.

Group companies have investment commitments relating to oil deposits in Iraq of $495 million to be spent within 3 years from when exploitation becomes possible. Due to significant changes in the political and economic situation in Iraq the future of this contract is not clear, however, the Group is actively pursuing its legal right to this contract in Iraq in alliance with ConocoPhillips.

Operating lease obligations

A Group company has commitments of $1,451 million primarily for the lease of vessels and petroleum distribution outlets over the next 9 years. Commitments for minimum rentals under these leases as of December 31, 2006 are as follows:

	As of December 31, 2006
2007	341
2008	267
2009	215
2010	124
2011	122
beyond	382

Note 20. Commitments and contingencies (continued)

Insurance

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

Environmental liabilities

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

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

Social assets

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

Taxation environment

The taxation systems in the Russian Federation and other emerging markets where Group companies operate are relatively new and are characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among different tax authorities within the same jurisdictions and among taxing authorities in different jurisdictions. Taxes are subject to review and investigation by a number of authorities, 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 tax authorities in each region may have a different interpretation of similar taxation issues which may result in taxation issues successfully defended by the Group in one region being unsuccessful in another region. There is some direction provided from the central authority based in Moscow on particular taxation issues.

Note 20. Commitments and contingencies (continued)

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 for 2005 include $163 million in relation to the results of tax audits of the Group companies for periods prior to the 2004 financial year.

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 alleged that the Defendants interfered with the transfer of a diamond exploration license to Almazny Bereg, a joint venture between ADC and AGD. ADC claimed total damages of 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 dismissed the lawsuit for lack of personal jurisdiction. This ruling was upheld by the Colorado Court of Appeals on March 25, 2004. On November 21, 2005, the Colorado Supreme Court affirmed the lower courts' ruling that no specific jurisdiction exists over the Defendants. By virtue of this finding, AGD (the holder of the diamond exploration license) was completely dismissed from the lawsuit. The Supreme Court found, however, that the trial court made a procedural error by not holding an evidentiary hearing before making its ruling concerning general jurisdiction, which is whether the Company had systematic and continuous contacts in the State of Colorado at the time the lawsuit was filed. In a modified opinion dated December 19, 2005, the Colorado Supreme Court remanded the case to the Colorado Court of Appeals (instead of the District Court) to consider whether the lawsuit should have been dismissed on alternative grounds (i.e., forum non conveniens). On June 29, 2006, the Colorado Court of Appeals declined to dismiss the case based on forum non conveniens. The Company filed a petition for certiorari on August 28, 2006 asking the Colorado Supreme Court to review this decision. On March 5, 2007 the Colorado Supreme Court remanded the case to the District Court. The District Court has not set a pretrial schedule, but should do so shortly. 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 ("Arbitration Tribunal") 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 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. On April 13, 2006 the Swedish Supreme Court denied the application of AGD for appeal against the Swedish Court of Appeal's decision dated November 15, 2005. On May 6, 2006 a Notice of Arbitration was received on behalf of ADC. On December 20, 2006 the first session of the Arbitration Tribunal with participation of both parties took place in order to define procedural issues related to the tribunal. As a result of the hearing the Arbitration Tribunal issued a detailed procedural order setting out the rules and timetable for the conduct of the arbitration. The hearing in relation to issues primarily relating to liability, if any, is currently scheduled to take place in June 2008. Management does not believe that the ultimate resolution of this matter will have a material adverse effect on the Group's financial condition.

Note 20. Commitments and contingencies (continued)

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 21. 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 considers 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. Insurance services are provided by the related parties, whose management and directors include members of the Group's management. 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 3, 10, 11, 12, 14, 17, 18, 19 and 22 for other transactions with related parties.

Sales of oil and oil products to related parties were $754 million, $605 million and $153 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Other sales to related parties were $19 million, $58 million and $63 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Purchases of oil and oil products from related parties were $1,739 million, $2,248 million and $770 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Purchases of construction services from related parties were $13 million, $378 million and $648 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Other purchases from related parties were $49 million, $54 million and $71 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Purchases of insurance services from related parties were $133 million, $133 million and $138 million during the years ended December 31, 2006, 2005 and 2004, respectively.

Amounts receivable from related parties, including loans and advances, were $121 million and $160 million as of December 31, 2006 and 2005, respectively. Amounts payable to related parties were $89 and $127 million as of December 31, 2006 and 2005, respectively.

In December 2006 the Company entered into an agreement with its related party ConocoPhillips to purchase 376 fueling stations in six countries in Europe. The agreement is expected to be finalized in the second quarter of 2007.

Note 22. Compensation plan

During the period from 2003 to 2006, the Company had 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 individuals under the plan was approximately 9 million shares. These rights vested in December 2006. The Group has accrued a liability of $537 million and $283 million, included in "Other current liabilities", as of December 31, 2006 and 2005, respectively. The Group recorded $280 million, $263 million and $65 million of compensation expense during the years ended December 31, 2006, 2005 and 2004, respectively. In February 2007, the compensation plan was settled through the issuance of approximately 7.3 million shares.

(Millions of US dollars, except as indicated)

Note 22. Compensation plan (continued)

In December 2006, the Company introduced a new compensation plan to certain members of management for the period from 2007 to 2009, which is based on assigned phantom shares and provides compensation consisting of two parts. The first part represents annual bonuses that are based on the number of assigned phantom shares and amount of dividend per share. The second is based upon the Company's common stock appreciation from 2007 to 2009 with rights vesting after the date of the compensation plan's termination. The number of assigned phantom shares is approximately 14 million shares.

Note 23. Segment information

Presented below is information about the Group's operating and geographical segments for the years ended December 31, 2006, 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

2006	**Exploration and production**	**Refining, marketing and distribution**	**Chemicals**	**Other**	**Elimination**	**Consolidated**
Sales						
Third parties	1,659	64,116	1,869	40	-	67,684
Inter-segment	18,989	1,786	22	216	(21,013)	-
Total sales	20,648	65,902	1,891	256	(21,013)	67,684
Operating expenses and total cost of purchases	3,232	42,835	1,561	138	(20,735)	27,031
Depreciation, depletion and amortization	1,269	542	19	21	-	1,851
Interest expense	451	341	2	187	(679)	302
Income tax expense	1,617	1,129	23	4	-	2,773
Net income	3,578	3,652	96	272	(114)	7,484
Total assets	34,152	32,168	794	7,340	(26,217)	48,237
Capital expenditures	5,120	1,475	172	119	-	6,886

(Millions of US dollars, except as indicated)

Note 23. Segment information (continued)

2005	**Exploration and production**	**Refining, marketing and distribution**	**Chemicals**	**Other**	**Elimination**	**Consolidated**
Sales						
Third parties	1,047	53,064	1,628	35	-	55,774
Inter-segment	14,821	1,041	22	138	(16,022)	-
Total sales	15,868	54,105	1,650	173	(16,022)	55,774
Operating expenses and total cost of purchases	2,602	34,652	1,314	126	(15,809)	22,885
Depreciation, depletion and amortization	824	464	15	12	-	1,315
Interest expense	73	335	2	50	(185)	275
Income tax expense	1,111	1,317	35	4	-	2,467
Net income	3,362	3,059	122	52	(152)	6,443
Total assets	25,480	23,682	586	5,130	(14,533)	40,345
Capital expenditures	2,918	1,129	77	53	-	4,177

2004	**Exploration and production**	**Refining, marketing and distribution**	**Chemicals**	**Other**	**Elimination**	**Consolidated**
Sales						
Third parties	1,614	30,807	1,384	40	-	33,845
Inter-segment	8,379	822	13	103	(9,317)	-
Total sales	9,993	31,629	1,397	143	(9,317)	33,845
Operating expenses and total cost of purchases	2,610	18,469	1,119	89	(9,283)	13,004
Depreciation, depletion and amortization	676	377	8	14	-	1,075
Interest expense	76	272	2	93	(143)	300
Income tax expense	568	1,159	20	13	-	1,760
Net income	1,221	2,908	175	117	(173)	4,248
Total assets	17,827	17,029	462	3,143	(8,700)	29,761
Capital expenditures	2,289	1,070	71	17	-	3,447

Geographical segments

	2006	**2005**	**2004**
Sales of crude oil within Russia	376	120	181
Export of crude oil and sales of crude oil by foreign subsidiaries	17,649	16,367	10,940
Sales of petroleum products within Russia	8,151	6,725	4,665
Export of petroleum products and sales of petroleum products by foreign subsidiaries	37,459	29,216	15,317
Sales of chemicals within Russia	569	469	332
Export of chemicals and sales of chemicals by foreign subsidiaries	1,260	1,134	1,021
Other sales within Russia	1,167	821	713
Other export sales and other sales of foreign subsidiaries	1,053	922	676
Total sales	**67,684**	**55,774**	**33,845**

(Millions of US dollars, except as indicated)

Note 23. Segment information (continued)

2006	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	318	10,693	56,673	-	67,684
Inter-segment	11,673	26,773	33	(38,479)	-
Total sales	11,991	37,466	56,706	(38,479)	67,684
Operating expenses and total cost of purchases	1,751	13,859	49,673	(38,252)	27,031
Depletion, depreciation and amortization	568	781	502	-	1,851
Interest expense	17	104	234	(53)	302
Income taxes	849	1,530	394	-	2,773
Net income	2,769	4,117	978	(380)	7,484
Total assets	12,967	25,483	18,921	(9,134)	48,237
Capital expenditures	1,487	3,944	1,455	-	6,886

2005	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	250	8,656	46,868	-	55,774
Inter-segment	8,947	21,098	31	(30,076)	-
Total sales	9,197	29,754	46,899	(30,076)	55,774
Operating expenses and total cost of purchases	1,372	10,829	40,590	(29,906)	22,885
Depletion, depreciation and amortization	389	618	308	-	1,315
Interest expense	17	160	133	(35)	275
Income taxes	539	1,716	212	-	2,467
Net income	2,116	4,015	925	(613)	6,443
Total assets	9,301	21,207	14,361	(4,524)	40,345
Capital expenditures	1,100	2,146	931	-	4,177

2004	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	698	6,739	26,408	-	33,845
Inter-segment	4,780	12,081	20	(16,881)	-
Total sales	5,478	18,820	26,428	(16,881)	33,845
Operating expenses and total cost of purchases	1,457	6,334	22,045	(16,832)	13,004
Depletion, depreciation and amortization	366	533	176	-	1,075
Interest expense	33	234	92	(59)	300
Income taxes	236	1,351	173	-	1,760
Net income	607	3,295	682	(336)	4,248
Total assets	5,625	16,796	10,579	(3,239)	29,761
Capital expenditures	1,082	1,767	598	-	3,447

(Millions of US dollars, except as indicated)

This section provides unaudited supplemental information on oil and gas exploration and production activities in accordance with SFAS No. 69, *"Disclosures About Oil and Gas Producing Activities"* in six separate tables:

I. Capitalized costs relating to oil and gas producing activities
II. Costs incurred in oil and gas property acquisition, exploration, and development activities
III. Results of operations for oil and gas producing activities
IV. Reserve quantity information
V. Standardized measure of discounted future net cash flows
VI. Principal sources of changes in the standardized measure of discounted future net cash flows

Amounts shown for equity companies represent the Group's share in its exploration and production affiliates, which are accounted for using the equity method of accounting.

I. Capitalized costs relating to oil and gas producing activities

As of December 31, 2006	International	Russia	Total consolidated companies	Group's share in equity companies	Total
Unproved oil and gas properties	351	511	862	13	875
Proved oil and gas properties	4,883	30,488	35,371	743	36,114
Accumulated depreciation, depletion, and amortization	(644)	(13,099)	(13,743)	(166)	(13,909)
Capitalized cost related to asset retirement obligation	4	329	333	3	336
Accumulated depreciation of capitalized cost related to asset retirement obligation	-	(26)	(26)	-	(26)
Net capitalized costs	4,594	18,203	22,797	593	23,390

As of December 31, 2005	International	Russia	Total consolidated companies	Group's share in equity companies	Total
Unproved oil and gas properties	196	531	727	17	744
Proved oil and gas properties	4,331	26,785	31,116	782	31,898
Accumulated depreciation, depletion, and amortization	(377)	(12,672)	(13,049)	(173)	(13,222)
Capitalized cost related to asset retirement obligation	-	166	166	4	170
Accumulated depreciation of capitalized cost related to asset retirement obligation	-	(19)	(19)	-	(19)
Net capitalized costs	4 ,150	14,791	18,941	630	19,571

As of December 31, 2004	International	Russia	Total consolidated companies	Group's share in equity companies	Total
Unproved oil and gas properties	202	666	868	23	891
Proved oil and gas properties	1,256	23,922	25,178	735	25,913
Accumulated depreciation, depletion, and amortization	(154)	(12,154)	(12,308)	(174)	(12,482)
Capitalized cost related to asset retirement obligation	1	70	71	1	72
Accumulated depreciation of capitalized cost related to asset retirement obligation	-	(7)	(7)	-	(7)
Net capitalized costs	1,305	12,497	13,802	585	14,387

(Millions of US dollars, except as indicated)

II. Costs incurred in oil and gas property acquisition, exploration, and development activities

Year ended December 31, 2006	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**	**Total**
Acquisition of properties - proved	50	529	579	-	579
Acquisition of properties - unproved	5	769	774	-	774
Exploration costs	192	276	468	11	479
Development costs	594	3,901	4,495	157	4,652
Total costs incurred	841	5,475	6,316	168	6,484

Year ended December 31, 2005	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**	**Total**
Acquisition of properties - proved	1,726	183	1,909	80	1,989
Acquisition of properties - unproved	690	370	1,060	100	1,160
Exploration costs	171	252	423	3	426
Development costs	260	2,235	2,495	124	2,619
Total costs incurred	2,847	3,040	5,887	307	6,194

Year ended December 31, 2004	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**	**Total**
Acquisition of properties - proved	224	16	240	-	240
Acquisition of properties - unproved	22	49	71	-	71
Exploration costs	81	225	306	3	309
Development costs	108	1,875	1,983	117	2,100
Total costs incurred	435	2,165	2,600	120	2,720

(Millions of US dollars, except as indicated)

III. Results of operations for oil and gas producing activities

The Group's results of operations for oil and gas producing activities are presented below. In accordance with SFAS No. 69, sales and transfers to Group companies are based on market prices. Income taxes are based on statutory rates. The results of operations exclude corporate overhead and interest costs.

Year ended December 31, 2006	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**	**Total**
Revenue					
Sales	1,207	14,241	15,448	714	16,162
Transfers	-	11,747	11,747	374	12,121
Total revenues	1,207	25,988	27,195	1,088	28,283
Production costs (excluding production taxes)	(151)	(2,161)	(2,312)	(97)	(2,409)
Exploration expense	(52)	(157)	(209)	(5)	(214)
Depreciation, depletion, and amortization	(261)	(973)	(1,234)	(50)	(1,284)
Accretion expense	-	(29)	(29)	-	(29)
Taxes other than income taxes	(17)	(15,644)	(15,661)	(258)	(15,919)
Related income taxes	(316)	(1,659)	(1,975)	(322)	(2,297)
Total results of operations for producing activities	410	5,365	5,775	356	6,131

Year ended December 31, 2005	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**	**Total**
Revenue					
Sales	620	12,327	12,947	720	13,667
Transfers	-	8,072	8,072	268	8,340
Total revenues	620	20,399	21,019	988	22,007
Production costs (excluding production taxes)	(93)	(1,672)	(1,765)	(137)	(1,902)
Exploration expense	(192)	(125)	(317)	(1)	(318)
Depreciation, depletion, and amortization	(106)	(718)	(824)	(60)	(884)
Accretion expense	-	(30)	(30)	-	(30)
Taxes other than income taxes	(6)	(11,160)	(11,166)	(285)	(11,451)
Related income taxes	(160)	(1,548)	(1,708)	(181)	(1,889)
Total results of operations for producing activities	63	5,146	5,209	324	5,533

Year ended December 31, 2004	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**	**Total**
Revenue					
Sales	243	8,841	9,084	754	9,838
Transfers	-	4,456	4,456	47	4,503
Total revenues	243	13,297	13,540	801	14,341
Production costs (excluding production taxes)	(54)	(1,509)	(1,563)	(62)	(1,625)
Exploration expense	(40)	(131)	(171)	(5)	(176)
Depreciation, depletion, and amortization	(28)	(648)	(676)	(39)	(715)
Accretion expense	-	(8)	(8)	-	(8)
Taxes other than income taxes	(2)	(5,544)	(5,546)	(172)	(5,718)
Related income taxes	(3)	(1,310)	(1,313)	(315)	(1,628)
Total results of operations for producing activities	116	4,147	4,263	208	4,471

IV. Reserve quantity information

Proved reserves are the estimated quantities of oil and gas reserves which geological and engineering data demonstrate will be recoverable with reasonable certainty in future years from known reservoirs under existing economic and operating conditions (i.e. prices and costs as of the date the estimate is made). Proved reserves do not include additional quantities of oil and gas reserves that may result from extensions of currently proved areas or from applying secondary or tertiary recovery techniques not yet tested and determined to be economic.

Reserves are estimated using the definitions of reserves prescribed by the US Society of Petroleum Engineers and the World Petroleum Congress requirements. The proved reserves include volumes which are recoverable up to and after license expiry dates.

Proved developed reserves are the quantities of proved reserves expected to be recovered through existing wells with existing equipment and operating methods.

Due to the inherent uncertainties and the necessarily limited nature of reservoir data, estimates of reserves are inherently imprecise, require the application of judgment and are subject to change as additional information becomes available.

Management has included within proved reserves significant quantities which the Group expects to produce after the expiry dates of certain of its current production licenses in the Russian Federation. These licenses expire between 2011 and 2026, with the most significant expiring between 2011 and 2014. Management believes the licenses will be extended to produce subsequent to their current expiry dates. The Group is in the process of extending all of its production licenses in the Russian Federation. The Group has already extended a portion of these licenses and expects to extend the remaining licenses for indefinite periods. To date there have been no unsuccessful license renewal applications.

Estimated net proved oil and gas reserves and changes thereto for the years 2006, 2005 and 2004 are shown in the tables set out below.

(Millions of US dollars, except as indicated)

Millions of barrels	**Consolidated subsidiaries**			**Group's share in equity companies**	**Total**
	International	Russia	Total		
Crude oil					
January 1, 2004	255	15,318	15,573	404	15,977
Revisions of previous estimates	8	(63)	(55)	65	10
Purchase of hydrocarbons in place*	12	22	34	(1)	33
Extensions and discoveries	-	606	606	18	624
Production	(11)	(596)	(607)	(28)	(635)
Sales of reserves	-	(35)	(35)	(2)	(37)
December 31, 2004	264	15,252	15,516	456	15,972
Revisions of previous estimates	(43)	29	(14)	(6)	(20)
Purchase of hydrocarbons in place*	174	266	440	(86)	354
Extensions and discoveries	28	472	500	6	506
Production	(15)	(619)	(634)	(30)	(664)
Sales of reserves	-	(34)	(34)	-	(34)
December 31, 2005	408	15,366	15,774	340	16,114
Revisions of previous estimates	15	(278)	(263)	12	(251)
Purchase of hydrocarbons in place	-	226	226	-	226
Extensions and discoveries	14	527	541	10	551
Production	(27)	(648)	(675)	(28)	(703)
Sales of reserves	-	(10)	(10)	-	(10)
December 31, 2006	**410**	**15,183**	**15,593**	**334**	**15,927**
Proved developed reserves					
December 31, 2004	124	10,205	10,329	322	10,651
December 31, 2005	255	10,070	10,325	258	10,583
December 31, 2006	**217**	**9,714**	**9,931**	**245**	**10,176**

* Purchase of hydrocarbons in place for equity companies includes transfers of reserves to the consolidated group upon those equity companies becoming subject to consolidation.

The minority interest share included in the above total proved reserves was 563 million barrels, 580 million barrels and 259 million barrels as of December 31, 2006, 2005 and 2004, respectively. The minority interest share included in the above proved developed reserves was 191 million barrels, 172 million barrels and 125 million barrels as of December 31, 2006, 2005 and 2004, respectively. Substantially all minority interests relate to the reserves in the Russian Federation.

(Millions of US dollars, except as indicated)

Billions of cubic feet	**Consolidated subsidiaries**			**Group's share in equity companies**	**Total**
	International	Russia	Total		
Natural gas					
January 1, 2004	2,155	22,152	24,307	166	24,473
Revisions of previous estimates	(268)	(754)	(1,022)	55	(967)
Purchase of hydrocarbons in place	1,174	2	1,176	-	1,176
Extensions and discoveries	-	93	93	2	95
Production	(32)	(133)	(165)	(9)	(174)
Sales of reserves	-	(4)	(4)	(1)	(5)
December 31, 2004	3,029	21,356	24,385	213	24,598
Revisions of previous estimates	402	(520)	(118)	(4)	(122)
Purchase of hydrocarbons in place*	-	8	8	(6)	2
Extensions and discoveries	273	742	1 015	5	1 020
Production	(35)	(155)	(190)	(10)	(200)
December 31, 2005	3,669	21,431	25,100	198	25,298
Revisions of previous estimates	667	795	1,462	5	1,467
Purchase of hydrocarbons in place	-	3	3	-	3
Extensions and discoveries	-	398	398	1	399
Production	(60)	(494)	(554)	(11)	(565)
Sales of reserves	-	(5)	(5)	-	(5)
December 31, 2006	**4,276**	**22,128**	**26,404**	**193**	**26,597**
Proved developed reserves:					
December 31, 2004	1,363	3,420	4,783	175	4,958
December 31, 2005	1,102	4,834	5,936	153	6,089
December 31, 2006	**1,108**	**6,234**	**7,342**	138	**7,480**

* Purchase of hydrocarbons in place for equity companies includes transfers of reserves to the consolidated group upon those equity companies becoming subject to consolidation.

The minority interest share included in the above total proved reserves was 43 billion cubic feet, 23 billion cubic feet and 20 billion cubic feet as of December 31, 2006, 2005 and 2004, respectively. The minority interest share included in the above proved developed reserves was 27 billion cubic feet, 15 billion cubic feet and 15 billion cubic feet as of December 31, 2006, 2005 and 2004, respectively. Substantially all minority interests relate to the reserves in the Russian Federation.

(Millions of US dollars, except as indicated)

V. Standardized measure of discounted future net cash flows

The standardized measure of discounted future net cash flows, related to the above oil and gas reserves, is calculated in accordance with the requirements of SFAS No. 69. Estimated future cash inflows from production are computed by applying year-end prices for oil and gas to year-end quantities of estimated net proved reserves. Adjustment in this calculation for future price changes is limited to those required by contractual arrangements in existence at the end of each reporting year. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pre-tax net cash flows, less the tax bases of related assets. Discounted future net cash flows have been calculated using a ten percent discount factor. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced.

The information provided in the tables set out below does not represent management's estimate of the Group's expected future cash flows or of the value of the Group's proved oil and gas reserves. Estimates of proved reserve quantities are imprecise and change over time as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The arbitrary valuation prescribed under SFAS No. 69 requires assumptions as to the timing and amount of future development and production costs. The calculations should not be relied upon as an indication of the Group's future cash flows or of the value of its oil and gas reserves.

	International	**Russia**	**Total consolidated companies**	**Group's share in equity**	**Total**
As of December 31, 2006					
Future cash inflows	24,767	421,215	445,982	13,896	459,878
Future production and development costs	(9,476)	(284,993)	(294,469)	(5,699)	(300,168)
Future income tax expenses	(2,867)	(30,307)	(33,174)	(2,271)	(35,445)
Future net cash flows	12,424	105,915	118,339	5,926	124,265
Discount for estimated timing of cash flows (10% p.a.)	(6,282)	(66,489)	(72,771)	(3,038)	(75,809)
Discounted future net cash flows	6,142	39,426	45,568	2,888	48,456
Minority share in discounted future net cash flows	-	1,158	1,158	-	1,158

Included as a part of the $300 billion of future production and development costs are $6,6 billion of future dismantlement, abandonment and rehabilitation costs.

(Millions of US dollars, except as indicated)

	International	Russia	Total consolidated companies	Group's share in equity	Total
As of December 31, 2005					
Future cash inflows	21,028	375,279	396,307	12,290	408,597
Future production and development costs	(9,471)	(200,288)	(209,759)	(4,513)	(214,272)
Future income tax expenses	(3,563)	(40,135)	(43,698)	(2,220)	(45,918)
Future net cash flows	7,994	134,856	142,850	5,557	148,407
Discount for estimated timing of cash flows (10% p.a.)	(4,140)	(86,622)	(90,762)	(2,898)	(93,660)
Discounted future net cash flows	3,854	48,234	52,088	2,659	54,747
Minority share in discounted future net cash flows	-	1,730	1,730	-	1,730

Included as a part of the $214 billion of future production and development costs are $5.6 billion of future dismantlement, abandonment and rehabilitation costs.

	International	Russia	Total consolidated companies	Group's share in equity	Total
As of December 31, 2004					
Future cash inflows	8,290	290,189	298,479	9,630	308,109
Future production and development costs	(4,507)	(162,246)	(166,753)	(4,434)	(171,187)
Future income tax expenses	(537)	(29,268)	(29,805)	(1,276)	(31,081)
Future net cash flows	3,246	98,675	101,921	3,920	105,841
Discount for estimated timing of cash flows (10% p.a.)	(1,919)	(64,896)	(66,815)	(1,980)	(68,795)
Discounted future net cash flows	1,327	33,779	35,106	1,940	37,046
Minority share in discounted future net cash flows	-	531	531	-	531

Included as a part of the $171 billion of future production and development costs are $4.4 billion of future dismantlement, abandonment and rehabilitation costs.

(Millions of US dollars, except as indicated)

VI. Principal sources of changes in the standardized measure of discounted future net cash flows

Consolidated companies	**2006**	**2005**	**2004**
Discounted present value as at January 1	52,088	35,106	31,258
Net changes due to purchases and sales of minerals in place	571	1,761	31
Sales and transfers of oil and gas produced, net of production costs	(9,014)	(7,771)	(6,260)
Net changes in prices and production costs estimates	17,496	24,556	8,550
Net changes in mineral extraction taxes	(30,592)	(5,770)	(2,669)
Extensions and discoveries, less related costs	1,753	2,619	1,548
Development costs incurred during the period	2,383	2,495	1,983
Revisions of previous quantity estimates	223	(320)	(416)
Net change in income taxes	4,002	(5,346)	(1,084)
Other changes	(300)	149	8
Accretion of discount	6,958	4,609	2,157
Discounted present value at December 31	**45,568**	**52,088**	**35,106**

Group's share in equity companies	**2006**	**2005**	**2004**
Discounted present value as at January 1	2,659	1,940	1,115
Net changes due to purchases and sales of minerals in place	-	(473)	(20)
Sales and transfers of oil and gas produced, net of production costs	(728)	(565)	(562)
Net changes in prices and production costs estimates	906	2,389	936
Net changes in mineral extraction taxes	(632)	(455)	(149)
Extensions and discoveries, less related costs	45	62	64
Development costs incurred during the period	47	124	117
Revisions of previous quantity estimates	153	(82)	388
Net change in income taxes	(13)	(432)	(224)
Other changes	104	(88)	143
Accretion of discount	347	239	132
Discounted present value at December 31	**2,888**	**2,659**	**1,940**

Total	**2006**	**2005**	**2004**
Discounted present value as at January 1	54,747	37,046	32,373
Net changes due to purchases and sales of minerals in place	571	1,288	11
Sales and transfers of oil and gas produced, net of production costs	(9,742)	(8,336)	(6,822)
Net changes in prices and production costs estimates	18,402	26,945	9,486
Net changes in mineral extraction taxes	(31,224)	(6,225)	(2,818)
Extensions and discoveries, less related costs	1,798	2,681	1,612
Development costs incurred during the period	2,430	2,619	2,100
Revisions of previous quantity estimates	376	(402)	(28)
Net change in income taxes	3,989	(5,778)	(1,308)
Other changes	(196)	61	151
Accretion of discount	7,305	4,848	2,289
Discounted present value at December 31	**48,456**	**54,747**	**37,046**