



OAO LUKOIL

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(prepared in accordance with US GAAP)

As of and for the three month period ended March 31, 2006

(unaudited)

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

Independent Accountants' Review Report

The Board of Directors of OAO LUKOIL:

We have reviewed the accompanying consolidated balance sheet of OAO LUKOIL and its subsidiaries as of March 31, 2006, and the related consolidated statements of income, stockholders' equity and cash flows for the three-month periods ended March 31, 2006 and 2005 in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of OAO LUKOIL.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

KPMG Limited

KPMG Limited
Moscow, Russian Federation
June 20, 2006

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

	Note	As of March 31, 2006 (unaudited)	As of December 31, 2005
Assets			
Current assets			
Cash and cash equivalents	4	1,677	1,650
Short-term investments		131	111
Accounts and notes receivable, net	6	5,523	5,533
Inventories		3,355	2,619
Prepaid taxes and other expenses		2,052	2,107
Other current assets		672	287
Assets held for sale	10	190	190
Total current assets		13,600	12,497
Investments	7	1,209	1,110
Property, plant and equipment	8	26,120	25,464
Deferred income tax assets		188	181
Goodwill and other intangible assets	9	683	680
Other non-current assets		409	413
Total assets		42,209	40,345
Liabilities and Stockholders' equity			
Current liabilities			
Accounts payable		2,472	2,167
Short-term borrowings and current portion of long-term debt	11	1,231	853
Taxes payable		1,608	2,087
Other current liabilities		924	729
Total current liabilities		6,235	5,836
Long-term debt	12	3,768	4,137
Deferred income tax liabilities		1,846	1,830
Asset retirement obligations	8	419	387
Other long-term liabilities		345	332
Minority interest in subsidiary companies		1,058	1,019
Total liabilities		13,671	13,541
Stockholders' equity			
Common stock	14	15	15
Treasury stock, at cost		(508)	(527)
Additional paid-in capital		3,756	3,730
Retained earnings		25,275	23,586
Total stockholders' equity		28,538	26,804
Total liabilities and stockholders' equity		42,209	40,345

First Vice-President of OAO LUKOIL
Maganov R.U.

Deputy Chief accountant of OAO LUKOIL
Kozyrev I.A.

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

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

	Note	For the three months ended March 31, 2006 (unaudited)	For the three months ended March 31, 2005 (unaudited)
Revenues			
Sales (including excise and export tariffs)	21	14,943	10,557
Equity share in income of affiliates	7	98	59
Total revenues		15,041	10,616
Costs and other deductions			
Operating expenses		(900)	(782)
Cost of purchased crude oil, petroleum and chemical products		(5,300)	(3,380)
Transportation expenses		(848)	(837)
Selling, general and administrative expenses		(761)	(512)
Depreciation, depletion and amortization		(408)	(284)
Taxes other than income taxes		(1,771)	(1,297)
Excise and export tariffs		(2,685)	(1,775)
Exploration expenses		(35)	(36)
Gain (loss) on disposals and impairments of assets		8	(17)
Income from operating activities		2,341	1,696
Interest expense		(62)	(55)
Interest and dividend income		27	18
Currency translation gain (loss)		92	(12)
Other non-operating (expense) income		(25)	13
Minority interest		(10)	(22)
Income before income taxes		2,363	1,638
Current income taxes		(769)	(490)
Deferred income taxes		95	32
Total income tax expense	3	(674)	(458)
Net income		1,689	1,180
Per share of common stock (US dollars):			
Basic	14	2.04	1.45
Diluted	14	2.04	1.43

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

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

	Common stock	Treasury stock	Additional paid-in capital	Retained earnings	Total Stockholders' equity
Three months ended March 31, 2006					
Balance as of December 31, 2005	15	(527)	3,730	23,586	26,804
Net income	-	-	-	1,689	1,689
Stock disposed	-	19	26	-	45
Balance as of March 31, 2006	15	(508)	3,756	25,275	28,538

Three months ended March 31, 2005					
Balance as of December 31, 2004	15	(706)	3,564	17,938	20,811
Net income	-	-	-	1,180	1,180
Stock disposed	-	40	5	-	45
Balance as of March 31, 2005	15	(666)	3,569	19,118	22,036

	Share activity (millions of shares)	
	Common stock	Treasury stock
Three months ended March 31, 2006		
Balance as of December 31, 2005	850	(22)
Stock disposed	-	2
Balance as of March 31, 2006	850	(20)
Three months ended March 31, 2005		
Balance as of December 31, 2004	850	(34)
Stock disposed	-	2
Balance as of March 31, 2005	850	(32)

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

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

	Note	For the three months ended March 31, 2006 (unaudited)	For the three months ended March 31, 2005 (unaudited)
Cash flows from operating activities			
Net income		1,689	1,180
Adjustments for non-cash items:			
Depreciation, depletion and amortization		408	284
Equity share in income of affiliates		(95)	(52)
Dry hole costs		10	3
(Gain) loss on disposals and impairments of assets		(8)	17
Deferred income taxes		(95)	(32)
Non-cash currency translation loss (gain)		3	(11)
Non-cash investing activities		(17)	(20)
All other items – net		52	87
Changes in operating assets and liabilities:			
Accounts and notes receivable		(8)	(998)
Short-term loans receivable of a banking subsidiary		25	(10)
Customer deposits placed in a banking subsidiary		(16)	13
Inventories		(736)	(333)
Accounts payable		305	28
Taxes payable		(478)	598
Other current assets and liabilities		237	(25)
Net cash provided by operating activities		1,276	729
Cash flows from investing activities			
Capital expenditures		(1,085)	(885)
Proceeds from sale of property, plant and equipment		63	5
Purchases of investments		(59)	(37)
Proceeds from sale of investments		28	18
Deposit on acquisition		(100)	-
Sale of subsidiaries, net of cash disposed		7	-
Acquisitions of subsidiaries and minority shareholding interest, net of cash acquired		(23)	(210)
Net cash used in investing activities		(1,169)	(1,109)
Cash flows from financing activities			
Net movements of short-term borrowings		487	359
Proceeds from issuance of long-term debt		20	10
Principal repayments of long-term debt		(483)	(81)
Dividends paid		(12)	(10)
Financing from related party		37	-
Advance for purchase of Company's stock		(150)	-
Proceeds from sale of treasury stock		-	45
Other – net		-	(1)
Net cash (used in) provided by financing activities		(101)	322
Effect of exchange rate changes on cash and cash equivalents		21	(1)
Net increase (decrease) in cash and cash equivalents		27	(59)
Cash and cash equivalents at beginning of year		1,650	1,257
Cash and cash equivalents at end of period	4	1,677	1,198
Supplemental disclosures of cash flow information			
Interest paid		64	77
Income taxes paid		690	475

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

Basis of preparation

The accompanying interim consolidated financial statements and notes thereto have not been audited by independent accountants, except for the balance sheet as of December 31, 2005. In the opinion of the Company’s management, the interim consolidated financial statements include all adjustments and disclosures necessary to present fairly the Group’s financial position, results of operations and cash flows for the interim periods reported herein. These adjustments were of a normal recurring nature.

These interim consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) as applicable to interim financial statements. These financial statements should be read in conjunction with the Group’s December 31, 2005 annual consolidated financial statements.

The results for the three-month period ended March 31, 2006 are not necessarily indicative of the results expected for the full year.

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 recognition

Revenues from the production and sale of crude oil and petroleum products are recognized when title passes to customers.

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 or operations where the US dollar is the functional currency, monetary assets and liabilities have been translated into US dollars at the rate prevailing at each balance sheet date. Non-monetary assets and liabilities have been translated into US dollars at historical rates. Revenues, expenses and cash flows have been translated into US dollars at rates, which approximate actual rates at the date of the transaction. Translation differences resulting from the use of these rates are included in the consolidated 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 March 31, 2006 and December 31, 2005, exchange rates of 27.76 and 28.78 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. Interest bearing security deposits with credit institutions that do not reduce the balance on long-term loan accounts are accounted for within long-term investments.

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.

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.

Note 2. Summary of significant accounting policies (continued)

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.

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.

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

The estimated effective income tax rate expected to be applicable for the full fiscal year is used in providing for income taxes on a current year-to-date basis. The estimated effective tax rate reflects statutory tax rates for each jurisdiction, the deductibility of expenses and taxability of income, anticipated tax credits and other available tax planning alternatives. 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 that includes the enactment date and is not accounted for as an adjustment of the annual effective tax rate.

Note 2. Summary of significant accounting policies (continued)

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 estimated by the management based on pension obligations as of the most recent annual period, which 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.

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.

Note 2. Summary of significant accounting policies (continued)

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.

Comparative amounts

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

Recent accounting pronouncements

In December 2004, the FASB issued SFAS No. 123(R) "Share-Based Payment," which revises SFAS No. 123 and supersedes Accounting Principles Board (APB) Opinion No. 25 regarding stock-based employee compensation plans. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be valued at fair value on the date of grant, and to be expensed over the applicable vesting period. The adoption of the provisions of SFAS No. 123(R) during the first quarter 2006 did not have a material impact on the Group's results of operations, financial position or cash flows.

Note 3. Taxes

Operations in the Russian Federation are subject to a Federal income tax rate of 6.5% and a regional tax rate that varies from 13.5% to 17.5% at the discretion of the individual regional administration. The majority of the Group's operations in Russia were subject to a combined statutory income tax rate of 24%. The Group's foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

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

Note 4. Cash and cash equivalents

	As of March 31, 2006	As of December 31, 2005
Cash held in Russian rubles	331	346
Cash held in other currencies	801	905
Cash of a banking subsidiary in other currencies	113	102
Cash held in affiliated banks in Russian rubles	376	173
Cash held in affiliated banks in other currencies	56	124
Total cash and cash equivalents	1,677	1,650

Note 5. Non-cash transactions

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

	For the three months ended March 31, 2006	For the three months ended March 31, 2005
Non-cash investing activity	17	20
Settlement of bond liability with the Company's common stock	36	-
Total non-cash transactions	53	20

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

	For the three months ended March 31, 2006	For the three months ended March 31, 2005
Net cash used in investing activity	1,169	1,109
Non-cash investing activity	17	20
Total investing activity	1,186	1,129

Note 6. Accounts and notes receivable, net

	As of March 31, 2006	As of December 31, 2005
Trade accounts and notes receivable (net of provisions of \$87 million and \$80 million as of March 31, 2006 and December 31, 2005, respectively)	4,003	3,410
Current VAT and excise recoverable	1,320	1,772
Short-term loans receivable of a banking subsidiary	23	48
Other current accounts receivable (net of provisions of \$42 million and \$46 million as of March 31, 2006 and December 31, 2005, respectively)	177	303
Total accounts and notes receivable, net	5,523	5,533

Note 7. Investments

	As of March 31, 2006	As of December 31, 2005
Investments in equity method affiliates and joint ventures	1,017	934
Long-term loans given by non-banking subsidiaries	169	165
Other long-term investments	23	11
Total long-term investments	1,209	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.

	For the three months ended March 31, 2006		For the three months ended March 31, 2005	
	Total	Group's share	Total	Group's share
Revenues	623	289	567	258
Income before income taxes	334	157	144	75
Less income taxes	(121)	(59)	(32)	(16)
Net income	213	98	112	59

OAO LUKOIL

Notes to Interim Consolidated Financial Statements (unaudited)
(Millions of US dollars, unless otherwise noted)

Note 7. Investments (continued)

	As of March 31, 2006		As of December 31, 2005	
	Total	Group's share	Total	Group's share
Current assets	3,972	1,179	2,650	859
Property, plant and equipment	1,920	1,078	2,171	1,129
Other non-current assets	83	38	71	32
Total assets	5,975	2,295	4,892	2,020
Short-term debt	2,735	587	1,599	347
Other current liabilities	400	205	590	249
Long-term debt	873	471	904	487
Other non-current liabilities	25	15	6	3
Net assets	1,942	1,017	1,793	934

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

	At cost		Net	
	As of March 31, 2006	As of December 31, 2005	As of March 31, 2006	As of December 31, 2005
Exploration and Production:				
Western Siberia	14,533	14,237	6,879	6,669
European Russia	13,575	13,245	8,394	8,122
International	4,608	4,527	4,171	4,150
Total	32,716	32,009	19,444	18,941
Refining, Marketing, Distribution and Chemicals:				
Western Siberia	28	27	22	22
European Russia	6,521	6,374	3,994	3,921
International	3,606	3,537	2,273	2,254
Total	10,155	9,938	6,289	6,197
Other:				
Western Siberia	159	159	77	78
European Russia	225	215	201	190
International	123	73	109	58
Total	507	447	387	326
Total property, plant and equipment	43,378	42,394	26,120	25,464

As of March 31, 2006 and December 31, 2005, the asset retirement obligations amounted to \$429 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. Changes in the asset retirement obligation during the three-month periods ended March 31, 2006 and 2005 primarily related to new liabilities incurred, accretion of the asset retirement obligation and changes in foreign exchange rates.

OA O LUKOIL**Notes to Interim Consolidated Financial Statements (unaudited)**
(Millions of US dollars, unless otherwise noted)**Note 9. Goodwill and other intangible assets**

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

	As of March 31, 2006	As of December 31, 2005
Amortized intangible assets		
Software	216	205
Licenses and other assets	55	58
Goodwill	412	417
Total goodwill and other intangible assets	683	680

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

Note 10. Disposition of assets

In December 2005, the Company made a decision to sell ten tankers. A Group company finalized the sale of eight tankers for a price that approximates the carrying value of \$190 million in May 2006. As of March 31, 2006 and December 31, 2005, the Group classified these tankers as assets held for sale in the consolidated balance sheets. The sale of the remaining two tankers is expected to be finalized in July 2007. The Group will use these tankers until that date and they continue to be accounted for as property, plant and equipment. These tankers are included in the "Refining, marketing and distribution" operating segment and "European Russia" geographical segment in Note 21 "Segment information."

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

	As of March 31, 2006	As of December 31, 2005
Short-term borrowings from third parties	749	315
Short-term borrowings from related parties	54	1
Current portion of long-term debt	428	537
Total short-term borrowings and current portion of long-term debt	1,231	853

Short-term borrowings are primarily repayable in US dollars and are unsecured.

Note 12. Long-term debt

	As of March 31, 2006	As of December 31, 2005
Long-term loans and borrowings from third parties	3,763	4,233
Long-term loans and borrowings from related parties	76	65
3.5% Convertible US dollar bonds, maturing 2007	63	94
7.25% Russian ruble bonds, maturing 2009	216	208
Capital lease obligation	78	74
Total long-term debt	4,196	4,674
Current portion of long-term debt	(428)	(537)
Total non-current portion of long-term debt	3,768	4,137

OA O LUKOIL**Notes to Interim Consolidated Financial Statements (unaudited)**
(Millions of US dollars, unless otherwise noted)**Note 12. Long-term debt (continued)*****Long-term loans and borrowings***

Long-term loans and borrowings are primarily repayable in US dollars, maturing from 2006 through 2017. About one third 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 6.07% and 5.82% per annum as of March 31, 2006 and December 31, 2005, respectively.

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 March 31, 2006, bondholders had converted 294,481 bonds into 14.27 million shares of common stock of the Company. Subsequent to period end, as of June 20, 2006, bondholders had converted an additional 865 bonds into 0.04 million shares of common stock of the Company.

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

Russian ruble bonds

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

Note 13. Pension benefits

The Company sponsors a post employment and post retirement benefits program that covers the majority of the Group's employees. The 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. 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.

Components of net periodic benefit cost were as follows:

	For the three months ended March 31, 2006	For the three months ended March 31, 2005
Service cost	3	1
Interest cost	5	5
Less expected return on plan assets	(2)	(1)
Amortization of prior service cost	2	3
Actuarial gain	(1)	(1)
Total net periodic benefit cost	7	7

Note 14. Stockholders' equity

Earnings per share

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

	For the three months ended March 31, 2006	For the three months ended March 31, 2005
Net income	1,689	1,180
Add back convertible debt interest (net of tax at effective rate)		
3.5% Convertible US dollar bonds, maturing 2007	1	7
Total diluted net income	1,690	1,187
Weighted average number of outstanding common shares (thousands of shares)	827,528	813,036
Add back treasury shares held in respect of convertible debt (thousands of shares)	2,924	16,957
Weighted average number of outstanding common shares, after dilution (thousands of shares)	830,452	829,993

Note 15. 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 an expense from the use of derivative instruments of \$75 million and \$132 million during the three months ended March 31, 2006 and 2005, respectively. The expense 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 liability of \$57 million and \$26 million as of March 31, 2006 and December 31, 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 March 31, 2006 and December 31, 2005 was \$4,303 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 16. Business combinations

During the period from November to December 2005, a Group company acquired 51% of the share capital of OAO Primorieneftgaz for \$261 million. OAO Primorieneftgaz is a Russian oil and gas exploration company operating in the European Russia. Subsequently, in May 2006, a Group company acquired the remaining 49% of the share capital of OAO Primorieneftgaz 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 Primorieneftgaz to 100%.

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Notes to Interim Consolidated Financial Statements (unaudited) (Millions of US dollars, unless otherwise noted)

Note 16. Business combinations (continued)

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%.

Note 17. Financial guarantees

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

	As of March 31, 2006	As of December 31, 2005
Guarantees of equity investees' debt	440	454
Guarantees of third parties' debt	19	19
Total	459	473

Guarantees on debt

LUKARCO, an investee recorded under the equity method of accounting has a loan facility on which \$695 million was drawn as of March 31, 2006. Borrowings under this loan bear interest at LIBOR plus 2.5% and are partly payable by February 7, 2007 with the remaining outstanding balance repayable 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 March 31, 2006, the total amount of the Company's guarantee was \$434 million, which includes \$59 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. No collateral secures the Company's guarantee. There are no material amounts being carried as liabilities for the Group's obligations under this guarantee.

Note 18. Commitments and contingencies

Capital expenditure, exploration and investment programs

The Group owns and operates a number of assets under which it has commitments for capital expenditure in relation to its exploration and investment programs. They mainly relate to existing license agreements in the Russian Federation, production sharing agreements and long-term service contracts. In addition to these, the Group has commitments to comply with the requirements of European Union legislation in relation to the quality of produced petroleum products and environmental protection which require it to upgrade its Bulgarian and Romanian refineries.

During the period ended March 31, 2006, there were no significant changes in these commitments from those disclosed in the Group's annual consolidated financial statements.

Note 18. Commitments and contingencies (continued)

Operating lease obligations

The Group has commitments of \$959 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 March 31, 2006 are as follows:

	As of March 31, 2006
For the nine-months ending December 31, 2006	154
2007 fiscal year	145
2008 fiscal year	101
2009 fiscal year	89
2010 fiscal year	89
beyond	381

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. The Group has limited business interruption insurance coverage. Management does not believe that it is appropriate to have full insurance coverage against business interruption given the Group's geographical diversity and the limited impact it considers likely to occur from a single event.

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.

Note 18. Commitments and contingencies (continued)*Litigation and claims*

On November 27, 2001, Archangel Diamond Corporation (“ADC”), a Canadian diamond development company, filed a lawsuit in the District Court of Denver, Colorado, against OAO “Arkhangelskgeoldobycha” (“AGD”), a Group company, and the Company (together the “Defendants”). ADC claims, among other things, that the Defendants interfered with the transfer of a diamond exploration license to Almazny Bereg, a joint venture between ADC and AGD. The total damages claimed by ADC are approximately \$4.8 billion, including compensatory damages of \$1.2 billion and punitive damages of \$3.6 billion. On October 15, 2002, the District Court of Denver, Colorado dismissed ADC’s action against the Defendants based on lack of personal jurisdiction. On November 22, 2002, the Denver District Court denied ADC’s request for reconsideration of the Court’s October 15th order dismissing the case. ADC subsequently filed an appeal on November 27, 2002 with the Court of Appeals in the State of Colorado. On March 25, 2004, the Court of Appeals upheld the October 15, 2002 decision of the District Court. On April 17, 2004, ADC filed a motion for rehearing that was denied on June 17, 2004. ADC then filed a petition for writ of certiorari with the Colorado Supreme Court on July 16, 2004. On January 10, 2005, the Colorado Supreme Court granted certiorari on a narrow issue: whether the Court of Appeals erred by concluding that a trial court may decide a motion to dismiss for lack of personal jurisdiction by weighing and resolving factual issues without an evidentiary hearing. The Colorado Supreme Court declined to review ADC’s other requested issue concerning jurisdiction. On November 21, 2005, the Colorado Supreme Court affirmed the lower courts’ findings that no specific jurisdiction exists over the Defendants. By virtue of this finding, AGD (the holder of the diamond exploration license) was dismissed from the lawsuit. The Supreme Court found however, that the trial court erred by not holding an evidentiary hearing concerning the existence of general jurisdiction, which is whether the Company had systematic and continuous contacts in the State of Colorado at the time the lawsuit was filed. Therefore, the lawsuit was initially remanded to the trial court to hold an evidentiary hearing on the issue of general jurisdiction. However, in response to a petition for rehearing filed by the Company, the Supreme Court issued a modified opinion on December 19, 2005 remanding this case to the Court of Appeals to consider any remaining issues that were not addressed by the Court of Appeals’ previous decision. On March 2, 2006, the Court of Appeals granted the Company’s motion to permit supplemental briefing on the issue of forum non convenience. Briefs on this issue were filed by the Company and ADC on March 27, 2006. The Company has filed a motion requesting oral argument on forum non convenience; the Court of Appeals has not ruled on this request. No other timetable has been established for the proceedings in the Court of Appeals. Management does not believe that the ultimate resolution of this matter will have a material adverse effect on the Group’s financial condition.

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

Note 18. 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.

Taxation environment

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

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

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

Note 19. 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 4, 7, 11, 12, 13, 16, 17 and 20 for other transactions with related parties.

Sales of oil and oil products to related parties were \$172 million and \$62 million for the three months ended March 31, 2006 and 2005, respectively.

Note 19. Related party transactions (continued)

Other sales to related parties were \$4 million and \$17 million for the three months ended March 31, 2006 and 2005, respectively.

Purchases of oil and oil products from related parties were \$444 million and \$422 million for the three months ended March 31, 2006 and 2005, respectively.

Purchases of construction services from related parties were \$1 and \$183 million for the three months ended March 31, 2006 and 2005, respectively.

Other purchases from related parties were \$21 million and \$14 million for the three months ended March 31, 2006 and 2005, respectively.

Purchases of insurance services from related parties were \$37 million and \$35 million during the three months ended March 31, 2006 and 2005, respectively.

Amounts receivable from related parties, including loans and advances, were \$329 million and \$160 million as of March 31, 2006 and December 31, 2005, respectively. Amounts payable to related parties were \$157 million and \$127 million as of March 31, 2006 and December 31, 2005, respectively.

Note 20. Compensation plan

During 2003, the Company introduced a compensation plan available to certain members of management, which provides compensation based upon share appreciation of the Company's common stock. The number of shares or rights under the plan is approximately 11 million shares, of which 9 million shares are allocated to individuals. These rights vest in December 2006.

The fair value of this compensation plan was calculated using the Black-Scholes option-pricing model, assuming a risk-free interest rate of 12%, an expected dividend yield of 1.2% and a volatility factor of 33.55% for the three months ended March 31, 2006.

As of March 31, 2006 and December 31, 2005, the Group has accrued liabilities of \$475 million and \$283 million, respectively, included in "Other current liabilities", and recorded \$203 million and \$33 million of compensation expense during the three month periods ended March 31, 2006 and 2005, respectively.

As of March 31, 2006, there was \$135 million of total unrecognized compensation cost related to non-vested compensation plan. This cost is expected to be recognized in 2006.

Note 21. Segment information

Presented below is information about the Group's operating and geographical segments as of and for the three months ended March 31, 2006 and 2005 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.

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(Millions of US dollars, unless otherwise noted)**Note 21. Segment information (continued)**

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

Operating segments**For the three months ended March 31, 2006**

	Exploration and production	Refining, marketing and distribution	Chemicals	Other	Elimination	Consolidated
Sales						
Third parties	386	14,103	450	4	-	14,943
Inter-segment	4,331	442	5	43	(4,821)	-
Total sales	4,717	14,545	455	47	(4,821)	14,943
Operating expenses and total cost of purchases						
	784	9,677	374	27	(4,662)	6,200
Depreciation, depletion and amortization						
	268	131	5	4	-	408
Interest expense						
	81	70	-	37	(126)	62
Income tax expense						
	359	308	6	1	-	674
Net income						
	824	896	22	23	(76)	1,689
Total assets						
	26,912	25,284	612	5,624	(16,223)	42,209
Capital expenditures						
	839	283	26	15	-	1,163

For the three months ended March 31, 2005

	Exploration and production	Refining, marketing and distribution	Chemicals	Other	Elimination	Consolidated
Sales						
Third parties	277	9,819	455	6	-	10,557
Inter-segment	2,610	219	6	31	(2,866)	-
Total sales	2,887	10,038	461	37	(2,866)	10,557
Operating expenses and total cost of purchases						
	612	5,929	331	26	(2,736)	4,162
Depreciation, depletion and amortization expense						
	176	103	2	3	-	284
Interest expense						
	13	72	-	8	(38)	55
Income tax expense						
	129	317	10	2	-	458
Net income (loss)						
	327	881	74	(13)	(89)	1,180
Total assets						
	18,867	19,206	490	3,279	(9,610)	32,232
Capital expenditures						
	654	260	10	14	-	938

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Notes to Interim Consolidated Financial Statements (unaudited)
(Millions of US dollars, unless otherwise noted)

Note 21. Segment information (continued)

Geographical segments

	For the three months ended March 31, 2006	For the three months ended March 31, 2005
Sales of crude oil within Russia	49	9
Export of crude oil and sales of crude oil by foreign subsidiaries	3,803	3,465
Sales of petroleum products within Russia	1,880	1,309
Export of petroleum products and sales of petroleum products by foreign subsidiaries	8,286	4,912
Sales of chemicals within Russia	139	113
Export of chemicals and sales of chemicals by foreign subsidiaries	298	331
Other sales within Russia	241	228
Other export sales and other sales of foreign subsidiaries	247	190
Total sales	14,943	10,557

For the three months ended March 31, 2006

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	65	2,472	12,406	-	14,943
Inter-segment	2,499	5,903	5	(8,407)	-
Total sales	2,564	8,375	12,411	(8,407)	14,943

Operating expenses and total cost of purchases	420	3,090	10,964	(8,274)	6,200
Depletion, depreciation and amortization	113	181	114	-	408
Interest expense	4	16	51	(9)	62
Income taxes	171	443	60	-	674
Net income	577	1,130	193	(211)	1,689
Total assets	9,761	22,052	15,378	(4,982)	42,209
Capital expenditures	318	617	228	-	1,163

For the three months ended March 31, 2005

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	77	1,816	8,664	-	10,557
Inter-segment	1,538	4,082	4	(5,624)	-
Total sales	1,615	5,898	8,668	(5,624)	10,557

Operating expenses and total cost of purchases	317	1,942	7,418	(5,515)	4,162
Depreciation, depletion and amortization expense	90	137	57	-	284
Interest expense	5	40	22	(12)	55
Income tax expense	38	384	36	-	458
Net income	175	971	180	(146)	1,180
Total assets	7,912	18,066	10,326	(4,072)	32,232
Capital expenditures	292	448	198	-	938

Note 22. Subsequent events

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 \$853 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 is a Delaware company, which owns approximately 95% of the share capital of OAO Khantymansiyskneftegazgeologia and 100% of the share capital of OAO Paitykh Oil and OAO Nazymgeodobycha (“KMOC subsidiaries”). KMOC subsidiaries operate oil and gas fields in the West Siberian region of the Russian Federation.