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

The following report represents management's discussion and analysis of the financial condition and results of operations of OAO LUKOIL as of September 30, 2007 and for the nine and three months ended September 30, 2007 and 2006 and significant trends that may affect its future performance. It should be read in conjunction with our interim US GAAP consolidated financial statements and notes thereto.

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

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

Key financial and operational results

	9 months of		Change, %	3rd quarter of		Change, %
	2007	2006		2007	2006	
Sales (including excise and export tariffs) (millions of US dollars)	57,096	51,459	11.0	21,315	18,249	16.8
Net income (millions of US dollars)	6,298	6,442	(2.2)	2,482	2,432	2.1
EBITDA (millions of US dollars)	10,370	10,178	1.9	4,021	3,714	8.3
Earnings per share of common stock (US dollars)						
Basic earnings	7.60	7.79	(2.5)	3.01	2.95	2.0
Diluted earnings	7.59	7.77	(2.2)	3.00	2.90	3.6
Hydrocarbon production by the Group including our share in equity affiliates (thousands of BOE)	595,553	583,613	2.0	195,689	200,181	(2.2)
Crude oil production by the Group including our share in equity affiliates (thousands of tonnes)	72,695	71,134	2.2	24,167	24,446	(1.1)
Gas available for sale produced by the Group including our share in equity affiliates (millions of cubic meters)	9,948	9,983	(0.4)	2,918	3,356	(13.1)
Refined products produced by our subsidiaries (thousands of tonnes)	36,128	33,550	7.7	12,656	11,761	7.6

During the nine-month period ended September 30, 2007 our net income was $6,298 million, which is $144 million, or 2.2%, less than in the same period of 2006.

Our performance was influenced by the movements in the international crude oil and refined products prices, an increase in the operating expenses and in the transportation tariffs. However, the negative effect of increased expenses was partly offset by increased volumes of hydrocarbon production and crude oil refining. These and other drivers impacting the results of our operations are considered below in detail.

Segment information

Our operations are divided into three main business segments:

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

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

Chemicals – which includes processing and trading of petrochemical products

Other businesses include banking, finance and other activities. Each of our three main segments is dependent on the other, with a portion of the revenues of one segment being a part of the costs of the other. In particular, our Refining, Marketing and Distribution segment purchases crude oil from our Exploration and Production segment. As a result of certain factors considered in the "Domestic crude oil and refined products prices" section on page 9, benchmarking crude oil market prices in Russia cannot be determined with certainty. Therefore, the prices set for inter-segment purchases of crude oil reflect a combination of market factors, primarily international crude oil market prices, transportation costs, regional market conditions, the cost of refining crude oil and other factors. Accordingly, an analysis of either of these segments on a stand-alone basis could give a misleading impression of those segments' underlying financial position and results of operations. For this reason, we do not analyze either of our main segments separately in the discussion that follows. However we present the financial data for each in Note 22 "Segment information" to our interim consolidated financial statements.

Executive overview

Recent developments

In November 2007, we started commercial production on Khausak gas field in Uzbekistan. This is a part of Kandym-Khauzak-Shady gas project which is jointly implemented with Uzbekneftegaz National Holding Company. Our share in expenses related to the project is 90%, but the share in revenue will depend on the stage of the project development, and will decrease upon recovery of the expenditures related to the project and its profitability. The field's maximum annual production capacity of 11 billion cubic metres is expected to be achieved in 2012-2013.

In June 2007, the Group finalized the acquisition of a 100% interest in companies owning 376 petrol stations in Europe, including 156 in Belgium and Luxembourg, 49 in Finland, 44 in the Czech Republic, 30 in Hungary, 83 in Poland and 14 in Slovakia, for approximately $442 million from ConocoPhillips, its related party. The purchase price is subject to finalization of working capital and other adjustments. We intend to re-brand the stations within one year. The stations located in Finland will be re-branded as Teboil stations. The remaining petrol stations in other European countries will be re-branded as LUKOIL stations.

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 Resources Limited), which has exploration and production operations in western Kazakhstan, for $980 million. This transaction was completed on April 20, 2007. In addition, Mittal Investments S.A.R.L. paid a liability in the amount of approximately $175 million, which represented 50% of Caspian's outstanding debt to Group companies.

In January 2007, a Group company acquired the remaining 34.0% of the share capital of OOO Geoilbent for $300 million. The acquisition increased the Group's ownership in OOO Geoilbent to 100%. Prior to this acquisition the Group accounted for its investment using the equity method of accounting due to the fact that the minority shareholder held substantive participating rights. OOO Geoilbent was an exploration and production company operating in the West Siberian region of the Russian Federation.

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

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

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

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. The sale of the remaining two tankers was expected to be finalized in July 2007, the finalization of this transaction was extended to March 2008. The price for these remaining tankers approximates their carrying value of $75 million.

Operational highlights

Hydrocarbon production

	9 months of 2007	9 months of 2006	Change,%
Daily production of hydrocarbons, including Company's share in equity affiliates (thousand BOE per day)	2,181	2,138	2.0
- crude oil	1,967	1,923	2.3
- natural and petroleum gas*	214	215	(0.4)
Hydrocarbon extraction expenses (US dollar per BOE)	3.55	3.01	17.9

	3rd quarter of 2007	3rd quarter of 2006	Change,%
Daily production of hydrocarbons, including Company's share in equity affiliates (thousand BOE per day)	2,127	2,176	(2.3)
- crude oil	1,940	1,961	(1.1)
- natural and petroleum gas*	187	215	(13.0)
Hydrocarbon extraction expenses (US dollar per BOE)	3.68	3.21	14.6

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

Crude oil production. In the nine months of 2007 we increased our total daily crude oil production by 2.3% compared to the same period of 2006 (including the Company's share in equity affiliates) and produced 537 million barrels, or 72.7 million tonnes of crude oil.

The following table represents our production in the nine months of 2007 and 2006 by major regions.

(thousands of tonnes)	9 months of 2007	Change to 2006			9 months of 2006
		Total, %	Change in structure	Organic change	
Western Siberia	45,108	2.9	2,020	(738)	43,826
Komi Republic	9,278	6.1	–	536	8,742
Urals region	8,346	3.1	–	251	8,095
Volga region	2,253	0.2	–	5	2,248
Northern Timan-Pechora	1,591	16.8	–	229	1,362
Other in Russia	1,580	3.1	–	48	1,532
Crude oil production in Russia	68,156	3.6	2,020	331	65,805
Crude oil produced internationally	2,640	2.1	(415)	469	2,586
Total crude oil produced by consolidated subsidiaries	**70,796**	**3.5**	**1,605**	**800**	**68,391**
Our share in crude oil production of equity affiliates:					
in Russia	293	(75.8)	(944)	25	1,212
outside Russia	1,606	4.9	–	75	1,531
Total crude oil production	**72,695**	**2.2**	**661**	**900**	**71,134**

The main oil producing region of the Company is Western Siberia. In the oilfields of Western Siberia the Group's subsidiaries produced 63.7% of its crude oil in the nine months of 2007 (64.1% in the same period of 2006). Structural increase in crude oil production in Western Siberia was due to acquisition of the remaining interest in OOO Geoilbent in January 2007, and dismantling by OOO LUKOIL-Western Siberia and Brazos Petroleum Overseas Limited (a Group affiliated company) their joint activity at the end of 2006. Before 2007, the crude oil production of Geoilbent and the joint activity were accounted for using equity method. Beginning from 2007, all crude oil production of the former joint activity was transferred to OOO LUKOIL-Western Siberia. Also, in June 2006 we acquired KMOC, which subsidiaries produced 1,138 thousand tonnes of crude oil in January-September 2007. Structural changes in overseas crude oil production reflects the changes in ownership of Caspian, where the Group reduced its interest from 100% to 50% in the end of April 2007.

In addition to our production, we purchase crude oil in Russia and on international markets. In Russia we primarily purchase crude oil from affiliated producing companies and other producers, including vertically integrated oil companies that lack refining capacity or are unable to export their crude oil. Then we may either refine or export purchased crude oil. Crude oil purchased on international markets is used for trading activities, for supplying our overseas refineries or for processing at third parties refineries. During the nine months of 2007 we purchased 1,363 thousand tonnes in order to process at our and at third parties' overseas refineries compared to 1,576 thousand tonnes in the same period of 2006.

	9 months of				
	2007		**2006**		**Change,%**
	(thousand of barrels)	(thousand of tonnes)	(thousand of barrels)	(thousand of tonnes)	
Crude oil purchases in Russia	279	38	10,299	1,405	(97.3)
Crude oil purchases internationally	26,571	3,625	25,684	3,504	3.5
Total crude oil purchased	**26,850**	**3,663**	**35,983**	**4,909**	**(25.4)**

	3rd quarter of				
	2007		**2006**		**Change,%**
	(thousand of barrels)	(thousand of tonnes)	(thousand of barrels)	(thousand of tonnes)	
Crude oil purchases in Russia	66	9	3,475	474	(98.1)
Crude oil purchases internationally	8,474	1,156	7,872	1,074	7.6
Total crude oil purchased	**8,540**	**1,165**	**11,347**	**1,548**	**(24.7)**

The volume of crude oil purchased in Russia during the nine months of 2007 was significantly less than in the same period of 2006 as a result of changes in the Group structure. The crude oil purchased in nine months of 2006 included transactions with our former 66% equity affiliate OOO Geoilbent. In January 2007, we acquired the remaining 34% of OOO Geoilbent, thereby increasing the Group's ownership stake to 100%.

Gas production. In the nine months of 2007 we produced 9,948 million cubic meters of gas available for sale (including our share in equity affiliates), which represents a slight decrease compared to the nine months of 2006. The decrease was due to reduced production from the Nakhodkinskoe gas field, where we produced 5,610 million cubic meters of natural gas in the nine months of 2007 compared to 6,186 million cubic meters in the same period of 2006. At the same time we increased production of oil-well gas in Western Siberia by 269 million cubic meters, or by 19.2%, due to higher level of oil-well gas utilization. Also we began production in the Shakh-Deniz field in Azerbaijan where our share in gas production totaled 168 million cubic meters in the nine months of 2007.

In order to ensure continuous supply of the natural gas from the Nakhodkinskoe gas field to market, in October 2003, we signed an agreement with OAO Gazprom. In accordance with the agreement OAO Gazprom undertakes to purchase the gas at the Yamburg Compressor Plant and to transport it through the Russian Unified Gas Supply System. In September 2006, we entered into an additional agreement with OAO Gazprom, under which OAO Gazprom undertakes to purchase at least 8 billion cubic meters of gas annually at a price of 1,059 rubles per 1,000 cubic meters.

Refining, marketing and trading

We operate four refineries located in European Russia and three refineries located overseas – in Bulgaria, Ukraine and Romania. In August 2005 we closed our refinery in Odessa, Ukraine to commence a wide-scale upgrade. In October 2007 we completed the first stage of our upgrade program and put the Odessa refinery back into operation with an annual capacity of 2.8 million tonnes. The second stage is planned to be completed in the first quarter of 2008.

Production of refined products at our refineries in the nine months of 2007 increased by 7.7% compared to the nine months of 2006 (in the third quarter 2007 it increased by 7.6% compared to the same period of 2006). Russian refineries increased production by 9.6% (in the third quarter 2007 the production increased by 9.2% compared to the same period of 2006). Our refinery throughput in Russia in the first quarter of 2007 was lower by approximately 0.2 million tonnes than planned due to a fire at the Volgograd refinery in March 2007. We recovered crude oil throughput at the refinery at the end of April 2007, and in the second quarter of 2007 it reached the same production volume as in the respective period of 2006. The production of our overseas refineries decreased by 0.8% as a result of the planned upgrade of our Bulgarian refinery in the first quarter of 2007.

Significant growth of production volumes in Russia in 2007 compared to the previous year was primarily due to increased capacity of the Nizhny Novgorod refinery from 15.1 to 17.0 million tonnes per year as a result of our modernization program at this refinery.

The Group is constantly improving the refined products mix at our refineries in order to produce higher quality and more profitable products. In the nine months of 2007 we produced 5,169 thousand tonnes of Euro 4 and Euro 5 diesel fuel at our Russian refineries (in the nine months of 2006 – 4,613 thousand tonnes), and 670 thousand tonnes of Euro 3 gasoline (in the nine months of 2006 – 373 thousand tonnes).

Along with our own production of refined products we refined crude oil at third party refineries. In Russia we refined 2,691 thousand tonnes of crude oil at third party refineries during the nine months of 2007, primarily to supply our network in the Urals region (in the nine months of 2006 – 2,392 thousand tonnes). To supply our retail networks in Eastern Europe we refined 675 thousand tonnes of crude oil at third party refineries in Belorussia and Serbia in the nine months of 2007 (in the nine months of 2006 – 1,308 thousand tonnes). In 2007 we decreased processing of our crude oil at Belorussian refineries due to a reduction in profitability resulting from changes in legislation.

Our marketing and trading activities mainly include wholesale and bunkering operations in Western Europe, South-East Asia and Central America and retail operations in the USA, Eastern Europe, Baltic states and some other regions. The total volume of refined products purchased from third parties for wholesale and to supply retail networks was 28,700 thousand tonnes, or $16,577 million, in the nine months of 2007 (27,216 thousand tonnes, or $15,263 million, in the nine months of 2006).

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

The following table represents volumes of refinery throughput, refined products produced and purchased.

	9 months of		**Change, %**
	2007	**2006**	
	(thousand barrels per day)		
Own refinery throughput	1,034	960	7.7
	(thousand of tonnes)		
Refined products produced at the Group refineries in Russia*	29,901	27,271	9.6
Refined products produced at the Group refineries outside Russia	6,227	6,279	(0.8)
Total refined products produced at the Group refineries	**36,128**	**33,550**	**7.7**
Refined products purchased in Russia	1,198	838	43.0
Refined products purchased internationally	28,732	27,258	5.4
Total refined products purchased	**29,930**	**28,096**	**6.5**

* Excluding production of mini refineries.

	3rd quarter of 2007	2006	Change, %
	(thousand barrels per day)		
Own refinery throughput	1,071	1,002	6.9
	(thousand of tonnes)		
Refined products produced at the Group refineries in Russia*	10,401	9,521	9.2
Refined products produced at the Group refineries outside Russia	2,255	2,240	0.7
Total refined products produced at the Group refineries	**12,656**	**11,761**	**7.6**
Refined products purchased in Russia	523	134	290.3
Refined products purchased internationally	9,890	8,876	11.4
Total refined products purchased	**10,413**	**9,010**	**15.6**

* Excluding production of mini refineries.

Exports of crude oil and refined products from Russia

Our export of crude oil from Russia in the nine months of 2007 was 4.8% less than in the nine months of 2006. During the nine months of 2007, we exported from Russia 47.3% of our total domestic crude oil production (in the same period of 2006 – 51.5%). 2.7% of our crude oil produced was exported bypassing the trunk oil pipeline system of OAO AK Transneft (“Transneft”) (in the nine months of 2006 – 3.2%). In spite of the overall decrease of our crude oil export from Russia we continue to increase our export by means of Baltic Pipeline System (“BPS”). The volume of crude oil, exported using the BPS (through the Primorsk terminal), increased in the nine months of 2007 up to 10,904 thousand tonnes, or by 9.7%, compared to the same period of 2006.

The crude oil exported through our own export infrastructure was 1,131 thousand tonnes in the nine months of 2007, 32.6% less than in the same period of 2006 due to a decrease in volumes exported through the Varandey and Izhevskoe terminals. Crude oil undersupplied to Varandey was exported through Murmansk.

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

	9 months of 2007 (thousand of barrels)	2007 (thousand of tonnes)	2006 (thousand of barrels)	2006 (thousand of tonnes)	Change, %
Exports of crude oil using Transneft export routes	222,788	30,394	233,072	31,797	(4.4)
Exports of crude oil bypassing Transneft	13,502	1,842	15,254	2,081	(11.5)
Total crude oil exports	**236,290**	**32,236**	**248,326**	**33,878**	**(4.8)**

	3rd quarter of 2007 (thousand of barrels)	2007 (thousand of tonnes)	2006 (thousand of barrels)	2006 (thousand of tonnes)	Change, %
Exports of crude oil using Transneft export routes	70,529	9,622	77,933	10,632	(9.5)
Exports of crude oil bypassing Transneft	5,952	812	6,238	851	(4.6)
Total crude oil exports	**76,481**	**10,434**	**84,171**	**11,483**	**(9.1)**

The Group owns and operates the Vysotsk export terminal. In September 2006, we completed the construction of the Vysotsk terminal and its current capacity can be expanded up to 15 million tonnes per year. Currently we use the terminal to export refined products: in the nine months of 2007 we exported 7,834 thousand tonnes of refined products through this terminal (in the nine months of 2006 – 6,024 thousand tonnes). In the future we expect to use the terminal to export both crude oil and refined products, depending on market conditions.

In the nine months of 2007, we exported from Russia 18.8 million tonnes of refined products, an increase of 27.3% compared to the same period of 2006. We export from Russia primarily diesel fuel, fuel oil and gasoil. These products accounted for approximately 85% of our refined products export volumes.

Main macroeconomic factors affecting our results of operation

Change in the price of crude oil and refined products

The price at which we sell crude oil and refined products is the primary driver of our revenues. During the nine months of 2007, the Brent crude oil price fluctuated between $50 and $82 per barrel and reached its peak of $81.10 at the end of September. At the same time, average Brent crude oil prices in the nine months of 2007 were roundly the same as in the respective period of 2006.

In the first seven months of 2007 crude oil prices were within an upward trend, generally defined by speculative political and short-term climatic factors, as well as by restrained crude supplies by OPEC countries and limitations in refineries capacity, caused by increased demand for light distillates. In August the markets saw a reduction in crude oil prices levels mainly due to the financial markets instability in Europe and the USA, and positive oil inventory data. Nevertheless, in September crude oil prices rebounded due to both fundamental economic factors, such as weakening of the US dollar and increasing demand, and speculative matters, as concerns on hurricanes in the Mexican Gulf and instability in the Middle East.

According to the International Energy Agency (IEA), in the third quarter of 2007 the world demand for crude oil and, subsequently, refined products increased by 1.5% compared to the same period of 2006, averaging 85.5 million barrels per day. IEA forecasts that world demand for crude oil in 2007 would be 85.9 million barrels per day, or 1.5% higher than in 2006. Based on OPEC data, its actual daily production in the third quarter of 2007 amounted to 30.5 million barrels per day, or 1.3% less than in 2006. This situation can be viewed as an indicator that crude oil prices may remain relatively high in the medium-term. But as the speculative content of crude oil price is sufficient, probability of price correction is high. The depth of the correction would depend on OPEC actions.

Substantially all of the crude oil that we export is Urals blend. The following table shows the average crude oil and refined product prices for the respective periods of 2007 and 2006.

	9 months of		**Change,%**	**3rd quarter of**		**Change,%**
	2007	**2006**		**2007**	**2006**	
	(in US dollars per bbl, except for figures in percent)					
Brent crude	67.12	67.01	0.2	74.74	69.60	7.4
Urals crude (CIF Mediterranean)*	63.96	62.99	1.5	72.21	65.81	9.7
Urals crude (CIF Rotterdam)*	63.82	62.95	1.4	71.98	65.90	9.2
	(in US dollars per metric tonne, except for figures in percent)					
Fuel oil 3.5% (FOB Rotterdam)	306.29	297.30	3.0	356.93	295.63	20.7
Diesel fuel (FOB Rotterdam)	586.60	591.50	(0.8)	648.85	614.11	5.7
High-octane gasoline (FOB Rotterdam)	666.87	650.08	2.6	709.64	678.04	4.7

Source: Platts.

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

Domestic crude oil and refined products prices

Substantially all crude oil produced in Russia is produced by vertically integrated oil companies such as ours. As a result, most transactions are between affiliated entities within vertically integrated groups. Thus, there is no concept of a benchmark domestic market price for crude oil. The price of crude oil that is produced but not refined or exported by one of the vertically integrated oil companies is generally determined on a transaction-by-transaction basis against a background of world market prices, but with no direct reference or correlation. At any time there may exist significant price differences between regions for similar quality crude oil as a result of the competition and economic conditions in those regions. At the same time it should be noted that in 2006 and the nine months of 2007 our domestic crude oil sales prices were nearly at the level of our export net back price.

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

The table below represents average domestic wholesale prices of refined products in the nine months of 2007 and 2006.

	9 months of		Change,%	3rd quarter of		Change,%
	2007	2006		2007	2006	
	(in US dollars per metric tonne, except for figures in percent)					
Fuel oil	161.35	184.07	(12.3)	206.48	195.87	5.4
Diesel fuel	470.85	485.08	(2.9)	491.73	517.43	(5.0)
High-octane gasoline (Regular)	596.06	562.29	6.0	662.23	631.46	4.9
High-octane gasoline (Premium)	676.25	609.38	11.0	736.82	676.88	8.9

Source: Kortes (excluding VAT).

Changes in the US dollar-ruble exchange rate and inflation

A substantial part of our revenues is either denominated in US dollars or is correlated to some extent with US dollar crude oil prices, while most of our costs in the Russian Federation are settled in Russian rubles. Therefore, ruble inflation and movements of exchange rates can significantly affect the results of our operations. In particular, the real appreciation of the ruble against the US dollar will generally cause our costs to increase in US dollar terms. However, an increase of the ruble denominated revenue in Russia in the US dollar terms reduces this adverse effect.

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

	9 months of		3rd quarter of	
	2007	2006	2007	2006
Ruble inflation (CPI), %	7.6	7.3	1.8	1.0
Change of the ruble-dollar exchange rate, %	5.2	7.0	3.4	1.1
Real appreciation of the ruble against the US dollar*, %	13.6	15.3	5.3	2.1
Average exchange rate for the period (ruble to US dollar)	25.89	27.39	25.51	26.81
Exchange rate at the end of the period (ruble to US dollar)	24.95	26.78	–	–

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

Tax burden

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

		9 months of*		Change, %
		2007	2006	
Export tariffs on crude oil	$/tonne	189.15	189.79	(0.3)
Export tariffs on refined products				
Light distillates (gasoline), middle distillates (jet fuel), diesel fuel and gasoils	$/tonne	139.77	137.99	1.3
Liquid fuels (fuel oil)	$/tonne	75.26	74.35	1.2
Excise on refined products				
Straight-run gasoline	RUR/tonne	2,657.00	2,657.00	–
High-octane gasoline	RUR/tonne	3,629.00	3,629.00	–
Low-octane gasoline	RUR/tonne	2,657.00	2,657.00	–
Diesel fuel	RUR/tonne	1,080.00	1,080.00	–
Motor oils	RUR/tonne	2,951.00	2,951.00	–
Mineral extraction tax				
Crude oil	RUR/tonne	2,282.30	2,352.35	(3.0)
Natural gas	RUR/1,000 m^3	147.00	147.00	–

* Average values.

		3rd quarter of* 2007	3rd quarter of* 2006	Change, %
Export tariffs on crude oil	$/tonne	216.05	210.81	2.5
Export tariffs on refined products				
Light distillates (gasoline), middle distillates (jet fuel), diesel fuel and gasoils	$/tonne	157.91	152.01	3.9
Liquid fuels (fuel oil)	$/tonne	85.04	81.94	3.8
Excise on refined products				
Straight-run gasoline	RUR/tonne	2,657.00	2,657.00	–
High-octane gasoline	RUR/tonne	3,629.00	3,629.00	–
Low-octane gasoline	RUR/tonne	2,657.00	2,657.00	–
Diesel fuel	RUR/tonne	1,080.00	1,080.00	–
Motor oils	RUR/tonne	2,951.00	2,951.00	–
Mineral extraction tax				
Crude oil	RUR/tonne	2,597.68	2,429.33	6.9
Natural gas	RUR/1,000 m^3	147.00	147.00	–

* Average values.

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

		9 months of * 2007	9 months of * 2006	Change, %	3rd quarter of* 2007	3rd quarter of* 2006	Change, %
Excise on refined products							
Straight-run gasoline	$/tonne	102.63	97.01	5.8	104.16	99.10	5.1
High-octane gasoline	$/tonne	140.17	132.49	5.8	142.26	135.36	5.1
Low-octane gasoline	$/tonne	102.63	97.01	5.8	104.16	99.10	5.1
Diesel fuel	$/tonne	41.71	39.43	5.8	42.34	40.28	5.1
Motor oils	$/tonne	113.98	107.74	5.8	115.68	110.07	5.1
Mineral extraction tax							
Crude oil	$/tonne	88.15	85.88	2.6	101.83	90.61	12.4
Natural gas	$/1,000 m^3	5.68	5.37	5.8	5.76	5.48	5.1

* Average values.

Changes in the tax rates specific to the oil industry in Russia in the nine months of 2007 compared to the nine months of 2006 were caused by the movements of the Urals crude oil price. These rates are linked to international crude oil price and change in line with them. The methods to determine the rates for such taxes are presented below.

Crude oil extraction tax rate. The base rate is 419 rubles per metric tonne extracted and it is adjusted depending on the international market price of Urals blend and the ruble exchange rate. The tax rate is zero when the average Urals blend international market price for a tax period is less than or equal to $9.00 per barrel. Each $1.00 per barrel increase in the international Urals blend price over the threshold ($9.00 per barrel) results in an increase of the tax rate by $1.61 per tonne extracted (or $0.22 per barrel extracted using a conversion factor of 7.33). This method of determining the crude oil extraction tax was applied until December 31, 2006.

Effective from January 1, 2007, the crude oil extraction tax rate varies depending on the development and depletion of a particular oilfield. The tax rate is zero for extra-heavy crude oil and for crude oil produced in certain regions of Eastern Siberia, depending on the period and volume of production. For crude oil produced in other regions the tax rate calculation described above should be multiplied by a coefficient characterizing the depletion of a particular oilfield. The coefficient is equal to 1.0 for the oilfields with depletion below 80%. Each 1% increase of depletion of a particular oilfield above 80% results in a decrease of the coefficient by 0.035. The minimum value of the coefficient is 0.3. The depletion level assessment is based on crude oil production and reserves information reported to the Russian government.

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

Crude oil export duty rate is calculated on a three-layer progressive scale. The rate is zero when the average Urals blend international market price is less than or equal to approximately $15.00 per barrel ($109.50 per metric tonne). If the Urals blend price is in a layer between $15.00 and $20.00 per barrel ($146.00 per metric tonne), each $1.00 per barrel increase in the Urals blend price over the layer's lower bound results in an increase of the crude oil export duty rate by $0.35 per barrel exported. If the Urals blend price is in a layer between $20.00 and $25.00 per barrel ($182.50 per metric tonne), each $1.00 per barrel increase in the Urals blend price over the layer's lower bound results in an increase of the crude oil export duty rate by $0.45 per barrel exported. Each $1.00 per barrel increase in the Urals blend price over $25.00 per barrel results in an increase of the crude oil export duty rate by $0.65 per barrel exported.

The Russian government sets export tariff rates for two-month periods. The rates in a specific two-month period are based on Urals blend international market prices in the preceding two months. Thus, the calculation method that the Russian government employs to determine export tariff rates results in a two-month gap between movements in crude oil prices and the revision of the export duty rate based on those crude oil prices.

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

Crude oil and refined products exported to CIS countries, other than Ukraine, are not subject to export duties. On January 1, 2007, customs regulations between Russia and Belorussia were changed. Crude oil exported from Russia to Belorussia is now subject to export duties. The latest amendments made by customs authorities set a coefficient of 0.293 to be applied from February 1, 2007 to the regular export duty rate set by the Russian Government for calculation of export duty on crude oil exports from Russia to Belorussia.

Transportation of crude oil and refined products in Russia

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

Transportation of crude oil produced in Russia to refineries and export destinations is performed primarily through the trunk oil pipeline system of state-owned Transneft. Access to the Transneft crude oil export pipeline network is allocated quarterly, based on recent volumes produced and delivered through the pipeline and proposed export destinations. There is a constraint on the ability of Russian companies to export their crude oil due to the limited capacity of Russian transportation infrastructure on the most profitable export routes. Moreover, the crude oil transported by Transneft is Urals blend – a mix of crude oils of various qualities, therefore Russian companies, which produce crude oil of a higher quality, can not obtain benefits from selling it using Transneft's pipeline. Alternative access to international markets bypassing Transneft export routes can be obtained through railroad transport, by tankers, and own export infrastructure of oil producing companies. Our own export infrastructure includes the Vysotsk terminal in the Leningrad region, the Varandey terminal in the Nenetsky Autonomous District and the Izhevskoye terminal in the Kaliningrad region. We use the Varandey terminal to export crude oil produced by our joint venture with ConocoPhillips located in Northern Timan-Pechora. The Izhevskoye terminal exports crude oil primarily produced by OOO LUKOIL-Kaliningradmorneft, our subsidiary operating in the Kaliningrad region, and refined products.

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

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

According to the Federal Statistics Service of the Russian Federation, during the year ended September 30, 2007 transportation tariffs increased as follows: transportation of crude oil by pipeline – 9.9%, transportation of refined products by pipeline – 16.0%, transportation by railway – 7.7%. These amounts differ from actual changes in tariffs for transportation of crude oil and refined products by the Group for the period considered due to the specifics in the routes and geography of our supplies from the Russian transportation averages.

Nine months ended September 30, 2007 compared to nine months ended September 30, 2006

Results of operations

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

	9 months of		Change, %
	2007	2006	
	(millions of US dollars)		
Revenues			
Sales (including excise and export tariffs)	57,096	51,459	11.0
Equity share in income of affiliates	251	344	(27.0)
Total revenues	**57,347**	**51,803**	**10.7**
Costs and other deductions			
Operating expenses	(4,469)	(3,338)	33.9
Cost of purchased crude oil, gas and products	(19,504)	(17,514)	11.4
Transportation expenses	(3,251)	(2,613)	24.4
Selling, general and administrative expenses	(2,259)	(2,140)	5.6
Depreciation, depletion and amortization	(1,675)	(1,325)	26.4
Taxes other than income taxes	(6,529)	(6,175)	5.7
Excise and export tariffs	(10,623)	(9,667)	9.9
Exploration expense	(176)	(118)	49.2
Loss on disposals and impairments of assets	(33)	(50)	(34.0)
Income from operating activities	**8,828**	**8,863**	**(0.4)**
Interest expense	(240)	(219)	9.6
Interest and dividend income	82	86	(4.7)
Currency translation gain	122	146	(16.4)
Other non-operating expense	(137)	(87)	57.5
Minority interest	(118)	(69)	71.0
Income before income taxes	**8,537**	**8,720**	**(2.1)**
Current income taxes	(2,364)	(2,170)	8.9
Deferred income taxes	125	(108)	–
Total income tax expense	**(2,239)**	**(2,278)**	**(1.7)**
Net income	**6,298**	**6,442**	**(2.2)**
Basic earnings per share of common stock (in US dollars)	7.60	7.79	(2.5)
Diluted earnings per share of common stock (in US dollars)	7.59	7.77	(2.2)

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

Sales revenues

Sales breakdown	9 months of 2007	9 months of 2006	Change, %
	(millions of US dollars)		
Crude oil			
Export and sales on international markets other than CIS	13,207	12,932	2.1
Export and sales to CIS	653	665	(1.8)
Domestic sales	315	310	1.6
	14,175	**13,907**	**1.9**
Refined products			
Export and sales on international markets			
Wholesale	26,032	23,085	12.8
Retail	6,432	5,457	17.9
Domestic sales			
Wholesale	4,153	4,135	0.4
Retail	2,584	1,955	32.2
	39,201	**34,632**	**13.2**
Petrochemicals			
Export and sales on international markets	1,126	915	23.1
Domestic sales	502	385	30.4
	1,628	**1,300**	**25.2**
Other	**2,092**	**1,620**	**29.1**
Total sales	**57,096**	**51,459**	**11.0**

Sales volumes	9 months of 2007	9 months of 2006	Change, %
Crude oil	(thousands of barrels)		
Export and sales on international markets other than CIS	208,832	207,959	0.4
Export and sales to CIS	15,430	17,922	(13.9)
Domestic sales	9,045	10,379	(12.9)
Crude oil	(thousands of tonnes)		
Export and sales on international markets other than CIS	28,490	28,371	0.4
Export and sales to CIS	2,105	2,445	(13.9)
Domestic sales	1,234	1,416	(12.9)
	31,829	**32,232**	**(1.3)**
Refined products	(thousands of tonnes)		
Export and sales on international markets			
Wholesale	47,410	42,529	11.5
Retail	5,791	5,353	8.2
Domestic sales			
Wholesale	10,314	11,357	(9.2)
Retail	3,452	2,937	17.5
	66,967	**62,176**	**7.7**
Total sales volume of crude oil and refined products	**98,796**	**94,408**	**4.6**

Realized average sales prices	9 months of				
	2007		2006		Change, %
	($/barrel)	($/tonne)	($/barrel)	($/tonne)	
Average realized price international					
Oil (excluding CIS)	63.24	463.57	62.19	455.82	1.7
Oil (CIS)	42.32	310.19	37.09	271.84	14.1
Refined products					
Wholesale		549.08		542.83	1.2
Retail		1,110.80		1,019.38	9.0
Average realized price within Russia					
Oil	34.82	255.20	29.90	219.14	16.5
Refined products					
Wholesale		402.72		364.08	10.6
Retail		748.53		665.82	12.4

During the nine months of 2007 our revenues increased by $5,637 million, or by 11.0%, compared to the same period of 2006.

The total volume of crude oil and refined products sold amounted to 98.8 million tonnes, which is 4.6% more compared to the nine months of 2006. Our revenues from crude oil sales increased by $268 million, or by 1.9%. Our sales of refined products increased by $4,569 million, or by 13.2%.

Sales of crude oil and refined products on international markets, including the CIS, accounted for 84.8% of our total sales volume in the nine months of 2007 (83.4% in the nine months of 2006).

Sales of crude oil

The 1.9% increase in our total crude oil sales from the nine months of 2006 to the nine months of 2007 was attributable primarily to an increase in our international crude oil sales revenues (excluding CIS). This sales revenue, which accounted for approximately 93.2% of our total crude oil sales revenue in the nine months of 2007 and 93.0% in the same period of 2006, increased by 2.1% primarily due to an increase in sales prices. At the same time the total volume of crude oil sales decreased by 1.3% compared to the nine months of 2006.

Sales of refined products

Sales of refined products made up 68.7% of our total revenues (67.8% in terms of volumes sold) compared to 67.4% (65.8% – in terms of volumes) in the same period of 2006. The portion of our domestic refined product sales in the nine months of 2007 was 13.9% of the total tonnes sold (in the nine months of 2006 – 15.1%), but represented 11.8% of our total revenues (in the nine months of 2006 – 11.8%). The decrease in our domestic refined products sales as a percentage of total refined products sales was due to the expansion of our international activities, including the increase of export from Russia.

The average realized wholesale price of refined products outside Russia increased by $6.25 per tonne, or by 1.2%, compared to the nine months of 2006. Wholesale volumes of refined products sold outside Russia increased by 4,881 thousand tonnes, or by 11.5%, primarily due to increased volumes of export from Russia. As a result, our revenue from the wholesale sales of refined products outside Russia increased by $2,947 million, or by 12.8%.

During the nine months of 2007, retail sales of refined products outside Russia increased by 438 thousand tonnes, or by 8.2%, compared to the nine months of 2006. This increase is attributable to additional sales volumes generated by the 376 petrol stations acquired from ConocoPhillips in the second quarter of 2007. Refined products sales at those stations were 443 thousand tonnes in the period June-September 2007. Average retail prices increased to $1,110.80 per tonne, or by 9.0%. As a result, our revenue from retail sales increased by $975 million, or by 17.9%, compared to the nine months of 2006. In the nine months of 2007, revenue from retail sales was 19.8% (in the nine months of 2006 – 19.1%) of total refined products sales outside Russia. Our international retail sales include supplies of refined products to third party retail networks under long-term contracts with pricing similar to retail pricing.

The average domestic wholesale realized price on refined products in the nine months of 2007 increased by $38.64 per tonne, or by 10.6%, compared to the same period of 2006. The wholesale sales of refined products within Russia in the nine months of 2007 decreased by 1,043 thousand tonnes, or by 9.2%, compared to the nine months of 2006. As a result, our revenue from the wholesale of refined products on the domestic market increased insignificantly. Volumes of refined products, which were not utilized in the domestic wholesale market were directed to a retail segment or exported from Russia.

Retail sales within Russia in the nine months of 2007 increased by 515 thousand tonnes, or by 17.5%, compared to the nine months of 2006. Average retail prices increased to $748.53 per tonne, or by 12.4%. As a result, our revenue from retail sales increased by $629 million in the nine months of 2007, or by 32.2%, compared to the same period of 2006. Revenue from retail sales was 38.4% of total refined products sales in Russia in the nine months of 2007 (in the nine months of 2006 – 32.1%).

Sales of petrochemical products

Revenue from sales of petrochemical products increased in the nine months of 2007 by $328 million, or by 25.2%, compared to the nine months of 2006. An increase in domestic revenue resulted from both price and volume factors. An increase in international sales of petrochemicals was mainly due to increase in sales prices.

Sales of other products

Other sales include revenues from sales of gas, gas refined products and other services provided and goods not related to our primary activities (such as electricity, heat, transportation etc.) sold by our production and marketing companies. Other sales increased in the nine months of 2007 by $472 million, or by 29.1%, generally as a result of the growth in gas and gas refined products sales and transportation services provided to third parties.

Sales of natural gas amounted to $271 million in the nine months of 2007 ($167 million in the same period of 2006). Our major purchaser of natural gas produced in the Russian Federation is OAO Gazprom. In the nine months of 2007 we sold 5,336 million cubic meters to OAO Gazprom at an average price of approximately $41 per 1,000 cubic meters (5,847 million cubic meters at approximately $23 per 1,000 cubic meters in the nine months of 2006).

Equity share in income of affiliates

Compared to the nine months of 2006, our share in income of affiliates decreased by $93 million, or by 27.0%, due to the changes in affiliates' structure.

Operating expenses

Operating expenses include the following types of costs:

	9 months of 2007	9 months of 2006	Change, %
	(millions of US dollars)		
Hydrocarbon extraction expenses	2,049	1,682	21.8
Own refining expenses	631	528	19.5
Refining expenses at third parties refineries	169	140	20.7
Excise included in processing fee paid to third parties refineries*	141	–	–
Petrochemical expenses	198	187	5.9
Crude oil transportation to own refineries	607	505	20.2
Other operating expenses	877	594	47.6
	4,672	**3,636**	**28.5**
Change in operating expenses in crude oil and refined products inventory originated within the Group	(203)	(298)	(31.9)
Total operating expenses	**4,469**	**3,338**	**33.9**
Cost of purchased crude oil, gas and products	**19,504**	**17,514**	**11.4**

*As a result of recent amendments to the Russian tax legislation, effective since January 1, 2007, responsibility to pay excises on refined products (except for straight-run gasoline) was transferred from traders and retailers to refineries. Before 2007 substantial part of excises on realization of refined products produced at third parties refineries was paid by the marketing subsidiaries of the Group and included in "Excise and export tariffs" of our results of operations. Currently such excises are included into processing fee.

Compared to the nine months of 2006, operating expenses increased by $1,131 million, or by 33.9%, which is mainly explained by the growth of hydrocarbon extraction expenses and other operating expenses. Real appreciation of the ruble against the US dollar is a significant factor affecting our operating expenses in Russia. For the year ended September 30, 2007 the real ruble appreciation was 17.5%.

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

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

In the nine months of 2007 our extraction expenses rose by $367 million, or by 21.8%, compared to the nine months of 2006. The increase resulted from growth of hydrocarbons production by our subsidiaries to 580.1 million BOE, which is an increase of 3.3%, compared to the nine months of 2006, the effect of the real ruble appreciation, increased expenses for energy supply, materials and labor. In the nine months of 2007, extraction expenses included approximately $36 million of expenses related to changes in the Group structure. Our average hydrocarbon extraction cost per barrel of oil equivalent increased from $3.01 to $3.55, or by 17.9%, compared to the nine months of 2006.

Own refining expenses at our refineries increased by $103 million, or by 19.5%, in the nine months of 2007 compared to the nine months of 2006.

Refining expenses of our domestic refineries increased by 25.2%, or by $94 million, as a result of increased production volume, large-scale overhauls at the Perm refinery, and due to the effect of the real ruble appreciation.

Refining expenses of our international refineries in the nine months of 2007 increased by 5.8%, or by $9 million, compared to the same period of 2006, despite the slightly decreased production. This resulted from significant share of fixed costs in our Bulgarian refinery, where reconstruction works in the first quarter of 2007 led to decreased production. Moreover, an appreciation of the exchange rates of Romanian and Bulgarian currencies, which are tied to Euro, to the US dollar, also caused additional increase in refining expenses in these countries.

Refining expenses at third parties refineries. Along with our own production of refined products we refined crude oil at third parties refineries both in Russia and overseas. Related expenses for the nine months of 2007 increased by 20.7% compared to the same period of 2006. This resulted from an increase in refining volumes and costs in Russia.

Crude oil transportation to own refineries increased by $102 million, or by 20.2%, compared to the nine months of 2006 due to an increase in transportation volumes and tariffs.

Other operating expenses include operating expenses of our gas processing plants, the costs of other services provided and goods not related to our core activities (such as electricity, heat, transportation, etc.) sold by our production and marketing companies, and operating expenses of other non-core businesses of the Group. Other operating expenses increased by $283 million, or by 47.6%, compared to the same period of 2006. This was due to increased amount of transportation and other services provided by the Group in the international segment.

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

Cost of purchased crude oil, gas and products increased by $1,990 million in the nine months of 2007, or by 11.4%, compared to the same period of 2006, primarily due to increase in international refined products trading volumes and prices.

Cost of purchased crude oil, gas and products included the result of hedging of international crude oil and refined products sales. In the nine months of 2007 we recognized a $334 million expense on hedging compared to an income of $106 million in the nine months of 2006.

Transportation expenses

Our transportation expenses increased in the nine months of 2007 by $638 million, or by 24.4%, compared to the nine months of 2006. This was due to an increase in transportation tariffs, the increased volumes of refined products export from Russia, changes in exports destinations and an overall increase in sales volumes.

Average transportation tariffs weighted by volumes of the Group's crude oil and refined products export deliveries to different locations changed in the nine months of 2007 compared to the same period of the previous year as follows: crude oil sea shipping tariffs increased by 11.8%; crude oil pipeline tariffs increased by 12.8%; railway tariffs for refined products transportation increased by 28.7%.

Selling, general and administrative expenses

Selling, general and administrative expenses include general business expenses, payroll costs (excluding extraction entities' and refineries' production staff costs), insurance costs (except for property insurance related to extraction and refinery equipment), costs of maintenance of social infrastructure, movement in bad debt provision and other expenses. In the nine months of 2007 our selling, general and administrative expenses increased by $119 million, or by 5.6%, compared to the nine months of 2006.

The growth was mainly due to the real ruble appreciation, expansion of our activities in Russia and internationally, and payment of additional discretionary bonuses for the 2006 financial year.

This was partially offset by the decrease in the cost related to our share-based management compensation plan. In the nine months of 2007 such expenses amounted to $93 million compared to $258 million in the nine months of 2006.

Depreciation, depletion and amortization

Depreciation, depletion and amortization expenses include depletion of assets fundamental to production, depreciation of other productive and non-productive assets and certain intangible assets. Our depreciation, depletion and amortization expenses increased by $350 million, or by 26.4%, compared to the nine months of 2006. The increase was a result of the Company's capital expenditures and the corresponding increase in depreciable assets.

Exploration expenses

During the nine months of 2007, the amount charged to exploration expense increased by $58 million, or by 49.2%, compared to the nine month of 2006. Dry hole costs increased by $40 million up to $74 million.

In the first half of 2007 we completed assessment of two exploratory wells drilled in Saudi Arabia. One of the wells was dry, and its cost of $54 million was charged to expense in the nine months of 2007. The second well discovered a natural gas reservoir. The dry hole costs in Russia amounted to $20 million and primarily related to Volga and Timan-Pechora regions.

Loss on disposals and impairments of assets

Loss on disposals and impairments of assets in the nine months of 2007 amounted to $33 million compared to $50 million in the respective period of 2006.

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

Interest expense

Interest expense in the nine months of 2007 increased by $21 million, or by 9.6%, compared to the nine months of 2006 resulting from an overall increase of our indebtedness. At the same time, the weighted-average interest rate on the indebtedness decreased compared to the level of the nine months of 2006.

Taxes other than income taxes

The taxes other than income taxes increased by 5.7%, or by $354 million, in the nine months of 2007 compared to the same period of 2006.

	9 months of			
	2007		2006	
	In Russia	**International**	**In Russia**	**International**
	(millions of US dollars)			
Mineral extraction taxes	5,833	–	5,668	–
Social security taxes and contributions	304	42	248	34
Property tax	201	22	154	18
Other taxes	109	18	28	25
	6,447	**82**	**6,098**	**77**
Total		**6,529**		**6,175**

Excise and export tariffs

Our excise and export tariffs include taxes on sales of refined products and export tariffs on the export of crude oil and refined products.

Excise and export tariffs increased by $956 million, or by 9.9%, compared to the nine months of 2006. The increase in export tariffs resulted from an increase in refined products export from Russia (27.3% as compared to the nine months of 2006 in terms of volumes).

The growth in international excises was mainly due to an increase in 2007 of excise rates in Bulgaria, substantial increase of refined product sales in Romania, implementation in May, 2006 of a new sales-tax on export of refined products in Romania, and the acquisition of the European petrol stations from ConocoPhillips.

	9 months of			
	2007		2006	
	In Russia	**International**	**In Russia**	**International**
	(millions of US dollars)			
Excise tax and sales taxes on refined products	524	2,532	478	2,037
Export tariffs	7,551	16	7,143	9
	8,075	**2,548**	**7,621**	**2,046**
Total		**10,623**		**9,667**

Income taxes

Our total income tax expense decreased by $39 million, or by 1.7%, compared to the nine months of 2006, due to a decrease of income before income tax by $183 million, or by 2.1%.

Our effective income tax rate in the nine months of 2007 was 26.2% (in the nine months of 2006 it was 26.1%), which is higher than the maximum statutory rate for the Russian Federation (24%). This is attributable to the fact that some costs incurred during the period are not tax deductible or only deductible to a certain limit.

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

	9 months of	
	2007	2006
	(millions of US dollars)	
Net income	**6,298**	**6,442**
Add back:		
Income tax expense	2,239	2,278
Depreciation and amortization	1,675	1,325
Interest expense	240	219
Interest and dividend income	(82)	(86)
EBITDA	**10,370**	**10,178**

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

Liquidity and capital resources

	9 months of 2007	9 months of 2006	Change, %
	(million US dollars)		
Net cash provided by operating activities	7,251	6,164	17.6
Net cash used in investing activities	(6,476)	(5,435)	19.2
Net cash used in financing activities	(704)	(999)	(29.5)
Net debt	5,924	4,446	33.2
Current ratio	1.96	1.94	
Total debt to equity	18%	18%	
Long-term debt to long term debt and equity	13%	12%	

Operating activities

Our primary source of cash flow is funds generated from our operations. During the nine months of 2007 cash generated by operating activities was $7,251 million, an increase of 17.6% compared to the nine months of 2006. In the nine months of 2007 our operating cash inflows were affected by an increase of working capital by $1,153 million compared to January 1, 2007. This was mainly caused by:

- a net increase of $471 million in VAT receivable balances
- a $569 million net increase in trade accounts receivable and payable
- an increase in inventory of $911 million, primarily resulting from increased volumes of refined products held.

At the same time, the negative effect from the above mentioned factors was partly offset by a net decrease of $808 million in tax accounts receivable.

In the nine months of 2006 our cash flows from operating activities were significantly affected by an increase in working capital of $1,878 million, primarily due to increases in inventory and accounts receivable.

Investing activities

An increase in cash used in investing activities resulted from an increase in capital expenditures by $2,084 million, or by 47.8%, compared to the same period of 2006 (for detailed analysis of the capital expenditures see the next pages). Also during the nine months of 2007 the Company paid $249 million for the acquisition of licenses for crude oil exploration and production for two fields in the Komi Republic.

Cash flows from investing activities include $1,155 million of cash received from the sale of our 50% interest in Caspian.

Financing activities

In the nine months of 2007 net movements of short-term and long-term debt generated an inflow of $418 million, compared to an inflow of $391 million in the respective period of 2006. These inflows included loans of $456 million in the nine months of 2007 and $267 million in the nine months of 2006 received from ConocoPhillips as its part of financing our joint venture in the Timan-Pechora region.

In June 2007, a Group company raised $1,000 million by an issue of non-convertible bonds. $500 million were placed with a maturity of 10 years and a coupon yield of 6.356% per annum and the remaining bonds were placed with a maturity of 15 years and a coupon yield of 6.656% per annum. All bonds were placed at the face value and have a half year coupon period. The amount raised was used to refinance a significant part of our debt related to the loan of $1,934 million, which the Group obtained in December 2005 to finance the acquisition of Caspian. As a result, the peak debt burden, which was to fall in December 2008, has halved.

During the nine months of 2007, as a result of settlement of a stock-based compensation plan employees purchased approximately 8.8 million shares held by the Group as a treasury stock at the grant price for $129 million and resold approximately 1.5 million shares back to the Group for $134 million.

Also during the nine months of 2007, a Group company paid $578 million for the purchase of the Company's common stock under our capital management program.

These factors resulted in a net cash outflow from financing activities of $704 million in the nine months of 2007 compared to an outflow of $999 million in the nine months of 2006.

Analysis of capital expenditures

	9 months of 2007	9 months of 2006	Change,%	3rd quarter of 2007	3rd quarter of 2006	Change,%
	(in millions of US dollars, except for figures in percent)					
Exploration and production						
Russia	4,699	2,887	62.8	1,659	1,196	38.7
International	559	495	12.9	214	266	(19.5)
Total exploration and production	5,258	3,382	55.5	1,873	1,462	28.1
Refining, marketing and distribution						
Russia	743	632	17.6	333	240	38.8
International	426	329	29.5	169	102	65.7
Total refining, marketing and distribution	1,169	961	21.6	502	342	46.8
Chemicals						
Russia	60	88	(31.8)	5	33	(84.8)
International	59	38	55.3	25	18	38.9
Total chemicals	119	126	(5.6)	30	51	(41.2)
Other	56	53	5.7	22	20	10.0
Total capital expenditures*	**6,602**	**4,522**	**46.0**	**2,427**	**1,875**	**29.4**
Acquisitions of subsidiaries						
Exploration and production						
Russia	23	1,170		18	–	
International	410	91		6	91	
Total exploration and production	433	1,261		24	91	
Refining, marketing and distribution						
Russia	147	117		76	64	
International	442	–		–	–	
Total refining, marketing and distribution	589	117		76	64	
Other	17	19		11	1	
Less cash acquired	(100)	(26)		–	–	
Total acquisitions of subsidiaries**	**939**	**1,371**	**(31.5)**	**111**	**156**	**(28.8)**

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

Capital expenditures, including non-cash transactions, during the nine months of 2007 amounted to $6,602 million, $2,080 million more than in the same period of 2006. The growth was mainly due to expenditures in our exploration and production segment, which increased by $1,876 million compared to the nine months of 2006. The growth in exploration and production capital expenditures in new regions amounted to $632 million, due to construction of facilities and development of infrastructure on our new oil fields. The capital expenditures in traditional exploration regions of Western Siberia increased by $703 million, substantially, as a result of an increase in exploratory drilling and investment in pipelines and machinery. Capital expenditures in European Russia increased by $437 million. Growth of the capital expenditures in our overseas exploration projects (excluding Caspian region) amounted to $104 million in the nine months of 2007 and primarily related to our projects in Kazakhstan, Saudi Arabia and Uzbekistan.

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

	9 months of 2007	9 months of 2006	Change,%	3rd quarter of 2007	3rd quarter of 2006	Change,%
	(in millions of US dollars, except for figures in percent)					
Northern Timan-Pechora	1,595	1,048	52.2	586	458	27.9
Yamal	65	103	(36.9)	31	15	106.7
Caspian region*	262	139	88.5	143	57	150.9
Total	**1,922**	**1,290**	**49.0**	**760**	**530**	**43.4**

* Russian and international projects.

Three months ended September 30, 2007 compared to three months ended September 30, 2006

Results of operations

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

	3rd quarter of 2007	3rd quarter of 2006	Change, %
	(millions of US dollars)		
Revenues			
Sales (including excise and export tariffs)	21,315	18,249	16.8
Equity share in income of affiliates	100	134	(25.4)
Total revenues	**21,415**	**18,383**	**16.5**
Costs and other deductions			
Operating expenses	(1,555)	(1,105)	40.7
Cost of purchased crude oil, gas and products	(7,384)	(5,709)	29.3
Transportation expenses	(1,116)	(974)	14.6
Selling, general and administrative expenses	(796)	(642)	24.0
Depreciation, depletion and amortization	(570)	(468)	21.8
Taxes other than income taxes	(2,486)	(2,342)	6.1
Excise and export tariffs	(3,954)	(3,713)	6.5
Exploration expense	(51)	(55)	(7.3)
Gain (loss) on disposals and impairments of assets	1	(28)	–
Income from operating activities	**3,504**	**3,347**	**4.7**
Interest expense	(86)	(78)	10.3
Interest and dividend income	29	34	(14.7)
Currency translation gain (loss)	51	(2)	–
Other non-operating expense	(56)	(48)	(16.7)
Minority interest	(48)	(51)	(5.9)
Income before income taxes	**3,394**	**3,202**	**6.0**
Current income taxes	(906)	(586)	54.6
Deferred income taxes	(6)	(184)	(96.7)
Total income tax expense	**(912)**	**(770)**	**18.4**
Net income	**2,482**	**2,432**	**2.1**
Basic earnings per share of common stock (in US dollars)	3.01	2.95	2.0
Diluted earnings per share of common stock (in US dollars)	3.00	2.90	3.6

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

Sales revenues

Sales breakdown	3rd quarter of 2007	3rd quarter of 2006	Change, %
	(millions of US dollars)		
Crude oil			
Export and sales on international markets other than CIS	4,664	4,752	(1.9)
Export and sales to CIS	167	202	(17.3)
Domestic sales	121	108	12.0
	4,952	**5,062**	**(2.2)**
Refined products			
Export and sales on international markets			
Wholesale	9,839	7,937	24.0
Retail	2,630	2,010	30.8
Domestic sales			
Wholesale	1,574	1,426	10.4
Retail	1,010	787	28.3
	15,053	**12,160**	**23.8**
Petrochemicals			
Export and sales on international markets	396	321	23.4
Domestic sales	180	124	45.2
	576	**445**	**29.4**
Other	**734**	**582**	**26.1**
Total sales	**21,315**	**18,249**	**16.8**

Sales volumes	3rd quarter of 2007	3rd quarter of 2006	Change, %
Crude oil	(thousands of barrels)		
Export and sales on international markets other than CIS	64,929	73,769	(12.0)
Export and sales to CIS	3,555	4,963	(28.4)
Domestic sales	3,042	3,350	(9.2)
Crude oil	(thousands of tonnes)		
Export and sales on international markets other than CIS	8,858	10,064	(12.0)
Export and sales to CIS	485	677	(28.4)
Domestic sales	415	457	(9.2)
	9,758	**11,198**	**(12.9)**
Refined products	(thousands of tonnes)		
Export and sales on international markets			
Wholesale	16,567	14,411	15.0
Retail	2,207	1,885	17.1
Domestic sales			
Wholesale	3,606	3,508	2.8
Retail	1,303	1,112	17.2
	23,683	**20,916**	**13.2**
Total sales volume of crude oil and refined products	**33,441**	**32,114**	**4.1**

Realized average sales prices	3rd quarter of				
	2007		2006		Change, %
	($/barrel)	($/tonne)	($/barrel)	($/tonne)	
Average realized price international					
Oil (excluding CIS)	71.83	526.54	64.42	472.20	11.5
Oil (CIS)	47.04	344.81	40.68	298.18	15.6
Refined products					
Wholesale		593.90		550.83	7.8
Retail		1,192.15		1,066.27	11.8
Average realized price within Russia					
Oil	39.69	290.92	32.46	237.90	22.3
Refined products					
Wholesale		436.51		406.33	7.4
Retail		775.23		708.46	9.4

During the third quarter of 2007 our revenues increased by $3,066 million, or by 16.8%, compared to the same period of 2006.

The total volume of crude oil and refined products sold amounted to 33.4 million tonnes, which is 4.1% more than in the third quarter of 2006. Our revenues from crude oil sales decreased by $110 million, or by 2.2%. Our sales of refined products increased by $2,893 million, or by 23.8%.

Sales of crude oil and refined products on international markets, including the CIS, accounted for 84.1% of our total sales volume in the third quarter of 2007 (84.2% in the third quarter of 2006).

Sales of crude oil

In the third quarter of 2007 our crude oil sales (in terms of volumes) decreased by 12.9% compared to the third quarter of 2006 because of a decrease in crude oil export from Russia. This was mainly due to increased crude oil refining. The effect of the decreased crude oil sales volumes was partially offset by an increase of the international crude oil sales price by 11.5% compared to the third quarter of 2006.

Sales of refined products

Sales of refined products made up 70.6% of our total revenues (70.8% in terms of volumes sold) compared to 66.6% (65.2% – in terms of volumes) in the same period of 2006. The portion of our domestic refined product sales in the third quarter of 2007 was 14.7% of the total tonnes sold (in the third quarter of 2006 – 14.4%), but represented 12.1% of our total revenues (in the third quarter of 2006 – 12.1%).

The average realized wholesale price of refined products outside Russia increased by $43.07 per tonne, or by 7.8%, compared to the third quarter of 2006. Wholesale volumes of refined products sold outside Russia increased by 2,156 thousand tonnes, or by 15.0%, due to increased volumes of export from Russia and increased trading activity. As a result, our revenue from the wholesale sales of refined products outside Russia increased by $1,902 million, or by 24.0%.

During the third quarter of 2007, retail sales of refined products outside Russia increased by 322 thousand tonnes, or by 17.1%, compared to the third quarter of 2006. This increase is attributable to additional sales volumes generated by the 376 petrol stations acquired from ConocoPhillips in the second quarter of 2007. Sales of refined products at these stations in the third quarter were 325 thousand tonnes. Average retail prices increased to $1,192.15 per tonne, or by 11.8%. As a result, our revenue from retail sales increased by $620 million, or by 30.8%, compared to the third quarter of 2006. In the third quarter of 2007, revenue from retail sales was 21.1% (in the third quarter of 2006 – 20.2%) of total refined products sales outside Russia. Our international retail sales include supplies of refined products to third party retail networks under long-term contracts with pricing similar to retail pricing.

The average wholesale domestic realized price on refined products in the third quarter of 2007 increased by $30.18 per tonne, or by 7.4%, compared to the same period of 2006. The wholesale sales of refined products within Russia in the third quarter of 2007 increased by 98 thousand tonnes, or by 2.8%, compared to the third quarter of 2006. As a result, our revenue from the wholesale of refined products on the domestic market increased by $148 million, or by 10.4%.

Retail sales within Russia in the third quarter of 2007 increased by 191 thousand tonnes, or by 17.2%, compared to the third quarter of 2006. Average retail prices increased to $775.23 per tonne, or by 9.4%. As a result, our revenue from retail sales increased by $223 million in the third quarter of 2007, or by 28.3%, compared to the same period of 2006. Revenue from retail sales was 39.1% of total refined products sales in Russia in the third quarter of 2007 (in the third quarter of 2006 – 35.6%).

Sales of petrochemical products

Revenue from sales of petrochemical products increased in the third quarter of 2007 by $131 million, or by 29.4%, compared to the third quarter of 2006, due to an increase in both volumes and prices for petrochemical products.

Sales of other products

Other sales include revenues from sales of gas, gas refined products and other services provided and goods not related to our primary activities (such as electricity, heat, transportation, etc.) sold by our production and marketing companies. Other sales increased in the third quarter of 2007 by $152 million, or by 26.1%, generally as a result of the growth in gas and gas refined products sales, and transportation services provided to the third parties.

Sales of natural gas amounted to $78 million in the third quarter of 2007 ($60 million in the same period of 2006). Our major purchaser of natural gas produced in the Russian Federation is OAO Gazprom. In the third quarter of 2007 we sold 1,398 million cubic meters to OAO Gazprom at an average price of approximately $42 per 1,000 cubic meters (1,904 million cubic meters at approximately $24 per 1,000 cubic meters in the third quarter of 2006).

Equity share in income of affiliates

Compared to the third quarter of 2006, our share in income of affiliates decreased by $34 million, or by 25.4%, due to the changes in affiliates' structure.

Operating expenses

Operating expenses include the following types of costs:

	3rd quarter of 2007	3rd quarter of 2006	Change, %
	(millions of US dollars)		
Hydrocarbon extraction expenses	699	616	13.5
Own refining expenses	221	185	19.5
Refining expenses at third parties refineries	48	54	(11.1)
Excise included in processing fee paid to third parties refineries*	45	–	–
Petrochemical expenses	64	58	10.3
Crude oil transportation to own refineries	196	174	12.6
Other operating expenses	361	203	77.8
	1,634	**1,290**	**26.7**
Change in operating expenses in crude oil and refined products inventory originated within the Group	(79)	(185)	(57.3)
Total operating expenses	**1,555**	**1,105**	**40.7**
Cost of purchased crude oil, gas and products	**7,384**	**5,709**	**29.3**

*As a result of recent amendments to the Russian tax legislation, effective since January 1, 2007, responsibility to pay excises on refined products (except for straight-run gasoline) was transferred from traders and retailers to refineries. Before 2007 substantial part of excises on realization of refined products produced at third parties refineries was paid by the marketing subsidiaries of the Group and included in "Excise and export tariffs" of our results of operations. Currently such excises are included into processing fee.

Compared to the third quarter of 2006, operating expenses increased by $450 million, or by 40.7%, which is mainly explained by an increase in other operating expenses, change in operating expenses in crude oil and refined products inventory originated within the Group, and an increase in hydrocarbon extraction. Real appreciation of the ruble against the US dollar is a significant factor affecting our operating expenses in Russia. For the year ended September 30, 2007 the real ruble appreciation was 17.5%.

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

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

In the third quarter of 2007 our extraction expenses rose by $83 million, or by 13.5%, compared to the third quarter of 2006. The increase resulted from the effect of the real ruble appreciation, increased expenses for energy supply, labor costs and materials. Our average hydrocarbon extraction cost per barrel of oil equivalent increased from $3.21 to $3.68, or by 14.6%, compared to the third quarter of 2006.

Own refining expenses at our refineries increased by $36 million, or by 19.5%, in the third quarter of 2007 compared to the third quarter of 2006.

Refining expenses of our domestic refineries increased by 25.6%, or by $33 million as a result of increased production volume, and due to the effect of the real ruble appreciation.

Refining expenses of our international refineries in the third quarter of 2007 increased by 5.4%, or $3 million.

Refining expenses at third parties refineries. Along with our own production of refined products we refined crude oil at third parties refineries both in Russia and overseas. Related expenses for the third quarter of 2007 decreased by 11.1% compared to the same period of 2006. This resulted from a decrease in volumes of crude oil refining in Belorussia.

Crude oil transportation to own refineries increased by $22 million, or by 12.6%, compared to the third quarter of 2006 due to an increase in transportation tariffs and volumes refined.

Other operating expenses include operating expenses of our gas processing plants, the costs of other services provided and goods not related to our core activities (such as electricity, heat, etc.) sold by our production and marketing companies, and operating expenses of other non-core businesses of the Group. Other operating expenses increased by $158 million, or by 77.8%, compared to the same period of 2006. This was due to increased amount of other services provided by the Group.

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

Cost of purchased crude oil, gas and products increased by $1,675 million in the third quarter of 2007, or by 29.3%, compared to the same period of 2006, primarily due to an increase in refined products international trading volumes and prices.

Cost of purchased crude oil, gas and products included the result of hedging of international crude oil and refined products sales. In the third quarter of 2007 we recognized a $136 million loss on hedging compared to a gain of $279 million in the third quarter of 2006.

Transportation expenses

Our transportation expenses increased in the third quarter of 2007 by $142 million, or by 14.6%, compared to the third quarter of 2006. This was due to an increase in transportation tariffs, the increased volumes of refined products export from Russia, change in exports destinations and an overall increase in sales volumes.

Selling, general and administrative expenses

Selling, general and administrative expenses include general business expenses, payroll costs (excluding extraction entities' and refineries' production staff costs), insurance costs (except for property insurance related to extraction and refinery equipment), costs of maintenance of social infrastructure, movement in bad debt provision and other expenses. In the third quarter of 2007 our selling, general and administrative expenses increased by $154 million, or by 24.0%, compared to the third quarter of 2006.

The increase in selling, general and administrative expenses was primarily due to the real ruble appreciation and expansion of our activities in Russia and internationally.

Also selling, general and administrative expenses include costs related to our share-based compensation program for management. In the third quarter of 2007 related compensation expenses were $32 million compared to an income of $11 million in the respective period of 2006.

Depreciation, depletion and amortization

Depreciation, depletion and amortization expenses include depletion of assets fundamental to production, depreciation of other productive and non-productive assets and certain intangible assets. Our depreciation, depletion and amortization expenses increased by $102 million, or by 21.8%, compared to the third quarter of 2006. The increase was a result of the Company's capital expenditures and the corresponding increase in depreciable assets.

Exploration expenses

During the third quarter of 2007, the amount charged to exploration expense decreased by 4 million, or by 7.3%, compared to the third quarter of 2006.

Gain (loss) on disposals and impairments of assets

Gain on disposals and impairment of assets in the third quarter of 2007 amounted to $1 million compared to $28 million loss in the respective period of 2006.

The losses of the third quarter of 2006 included the financial result from disposals of a number of non-core assets and individually insignificant impairments on non-performing business units.

Interest expense

Interest expense in the third quarter of 2007 increased by $8 million, or by 10.3%, compared to the third quarter of 2006 due to general increase of our indebtedness.

Taxes other than income taxes

The taxes other than income taxes increased by 6.1% in the third quarter of 2007 compared to the same period of 2006.

	3rd quarter of			
	2007		2006	
	In Russia	**International**	**In Russia**	**International**
	(millions of US dollars)			
Mineral extraction taxes	2,290	–	2,176	–
Social security taxes and contributions	77	16	74	13
Property tax	68	8	52	7
Other taxes	16	11	10	10
	2,451	**35**	**2,312**	**30**
Total		**2,486**		**2,342**

Excise and export tariffs

Our excise and export tariffs include taxes on sales of refined products and export tariffs on the export of crude oil and refined products. Excise and export tariffs increased by $241 million, or by 6.5%, compared to the third quarter of 2006.

The growth in international excises was mainly due to an increase in 2007 of excise rates in Bulgaria, substantial increase of refined product sales in Romania, and the acquisition of the European petrol stations from ConocoPhillips.

	3rd quarter of 2007 In Russia	2007 International	2006 In Russia	2006 International
	(millions of US dollars)			
Excise tax and sales taxes on refined products	170	923	149	770
Export tariffs	2,860	1	2,791	3
	3,030	**924**	**2,940**	**773**
Total		**3,954**		**3,713**

Income taxes

Our total income tax expense increased by $142 million, or by 18.4%, compared to the third quarter of 2006 due to an increase of income before income tax by $192, or by 6.0%.

Our effective income tax rate in the third quarter of 2007 was 26.9% (in the third quarter of 2006 it was 24.0%).

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

	3rd quarter of 2007	2006
	(millions of US dollars)	
Net income	**2,482**	**2,432**
Add back:		
Income tax expense	912	770
Depreciation and amortization	570	468
Interest expense	86	78
Interest and dividend income	(29)	(34)
EBITDA	**4,021**	**3,714**