OAO LUKOIL

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(prepared in accordance with US GAAP)

As of and for the three month period ended March 31, 2003

(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, 2003, and the related consolidated statements of income and cash flows for the three-month periods ended March 31, 2003 and 2002. These consolidated financial statements are the responsibility of the management of OAO LUKOIL.

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

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

KPMG Limited

June 26, 2003
Moscow, Russian Federation

(Millions of US dollars, unless otherwise noted)

	Note	As of March 31, 2003 (unaudited)	As of December 31, 2002
Assets			
Current assets			
Cash and cash equivalents	5	989	1,252
Short-term investments		396	278
Accounts and notes receivable, net	6	2,985	2,511
Inventories		1,143	1,063
Prepaid taxes and other expenses		678	736
Other current assets		477	356
Assets held for sale	7	279	279
Total current assets		**6,947**	**6,475**
Investments		889	934
Property, plant and equipment		14,177	13,499
Deferred income tax assets		258	206
Goodwill and other intangible assets		412	399
Other non-current assets		799	488
Total assets		**23,482**	**22,001**
Liabilities and Stockholders’ equity			
Current liabilities			
Accounts payable		1,367	1,293
Short-term borrowings and current portion of long-term debt	8	2,002	1,772
Customer deposits placed in banking subsidiaries		692	755
Taxes payable		902	640
Other current liabilities		391	337
Total current liabilities		**5,354**	**4,797**
Long-term debt	9	1,514	1,666
Deferred income tax liabilities		381	261
Asset retirement obligation	2	143	-
Other long-term liabilities		398	397
Minority interest in subsidiary companies		892	880
Total liabilities		**8,682**	**8,001**
Stockholders’ equity			
Common stock	11	15	15
Treasury stock, at cost	11	(447)	(428)
Additional paid-in capital		3,229	3,229
Retained earnings		12,006	11,186
Accumulated other comprehensive loss		(3)	(2)
Total stockholders’ equity		**14,800**	**14,000**
Total liabilities and stockholders’ equity		**23,482**	**22,001**

President of OAO LUKOIL
Alekperov V.Y.

Chief accountant -Vice-President of OAO LUKOIL
Khoba L.N.

(Millions of US dollars, unless otherwise noted)

	Note	For the three months ended March 31, 2003 (unaudited)	For the three months ended March 31, 2002 (unaudited)
Revenues			
Sales (including excise and export tariffs)	14	5,056	2,847
Equity share in income of affiliates		42	20
Total revenues		**5,098**	**2,867**
Costs and other deductions			
Operating expenses		(668)	(657)
Cost of purchased crude oil, petroleum and chemical products		(1,279)	(396)
Transportation expenses		(436)	(268)
Selling, general and administrative expenses		(329)	(307)
Depreciation, depletion and amortization		(229)	(237)
Taxes other than income taxes		(610)	(377)
Excise and export tariffs		(541)	(212)
Exploration expense		(26)	(20)
Loss on disposal and impairment of assets		(40)	(22)
Income from operating activities		**940**	**371**
Interest expense		(62)	(67)
Interest and dividend income		16	32
Currency translation gain (loss)		33	(34)
Other non-operating income		36	21
Minority interest		(7)	(6)
Income before income taxes		**956**	**317**
Current income taxes		(270)	(108)
Deferred income taxes		2	34
Total income tax expense	4	**(268)**	**(74)**
Income before cumulative effect of change in accounting principle		**688**	**243**
Cumulative effect of change in accounting principle, net of tax	2	132	-
Net income		**820**	**243**
Per share of common stock (US dollars):			
Income before cumulative effect of change in accounting principle			
Basic		0.84	0.30
Diluted		0.83	0.30
Net Income			
Basic		1.00	0.30
Diluted		0.99	0.30

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

	For the three months ended March 31, 2003 (unaudited)	For the three months ended March 31, 2002 (unaudited)
Cash flows from operating activities		
Net income	**820**	**243**
Adjustments for non-cash items:		
Cumulative effect of change in accounting principle, net of tax	(132)	-
Depreciation, depletion and amortization	229	237
Equity share in income of affiliates	(42)	(20)
Loss on disposal and impairment of assets	40	22
Deferred income taxes	(2)	(34)
Non-cash currency translation loss (gain)	3	(4)
Non-cash investing activities	(4)	5
All other items – net	(47)	22
Changes in operating assets and liabilities:		
Accounts and notes receivable	(448)	(65)
Short-term loans receivable of banking subsidiaries	(15)	(1)
Net movements of customer deposits placed in banking subsidiaries	(64)	(7)
Inventories	(89)	(21)
Accounts payable	58	(351)
Taxes payable	263	28
Other current assets and liabilities	24	154
Net cash provided by operating activities	**594**	**208**
Cash flows from investing activities		
Capital expenditures	(550)	(515)
Proceeds from sales of property, plant and equipment	4	4
Purchases of investments	(186)	(50)
Proceeds from sales of investments	83	11
Advances and loans related to acquisitions of subsidiaries and minority shareholding interest	(241)	-
Acquisitions of subsidiaries, net of cash acquired	(10)	(55)
Net cash used in investing activities	**(900)**	**(605)**
Cash flows from financing activities		
Net movements of short-term borrowings	22	142
Proceeds from issuance of long-term debt	266	91
Principal payments of long-term debt	(222)	(57)
Dividends paid	(6)	(75)
Purchases of treasury stock	(19)	(114)
Proceeds from sales of treasury stock	-	93
Other – net	(3)	26
Net cash provided by financing activities	**38**	**106**
Effect of exchange rate changes on cash and cash equivalents	5	(12)
Net decrease in cash and cash equivalents	**(263)**	**(303)**
Cash and cash equivalents at beginning of the period	1,252	1,170
Cash and cash equivalents at end of the period	**989**	**867**
Supplemental disclosures of cash flow information		
Interest paid	50	65
Income tax paid	176	156

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

Note 1. Basis of Financial Statement presentation

The accompanying consolidated interim financial statements and notes thereto of OAO LUKOIL (the "Company") and its subsidiaries (the "Group") have not been audited by independent accountants, except for the balance sheet at December 31, 2002. In the opinion of the Company's management, the interim financial information includes all adjustments and disclosures necessary to present fairly the Group's financial position, results of operations and cash flows for the interim periods reported herein. These adjustments were of a normal recurring nature, except for the cumulative effect of change in accounting principle described in Note 2 "Cumulative effect of change in accounting principle."

Certain notes and other information have been condensed or omitted from the interim financial statements. Therefore, these financial statements should be read in conjunction with the Group's December 31, 2002 annual consolidated financial statements. Except as disclosed in Note 2 "Cumulative effect of change in accounting principle", the consolidated interim financial statements have been prepared following the accounting policies applied and disclosed in the December 31, 2002 consolidated financial statements. Prior period amounts have been reclassified, where applicable, to conform with current period presentation.

The results for the three-month period ended March 31, 2003 are not necessarily indicative of the results expected for the full year.

Foreign currency translation

Effective January 1, 2003, the Russian economy ceased to be considered hyperinflationary in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 52, "*Foreign Currency Translation*." As a result, the Company has assessed its functional currency for its operations in the Russian Federation and determined that the US dollar should continue to be considered the functional currency for financial reporting beginning January 1, 2003. This is primarily due to the market in which the Company operates, significance of operations and transactions conducted in US dollars, and management measurement and decision making of the Company are based on US dollars. The US dollar is considered to be the reporting currency for the Group under US GAAP.

The Russian economy ceasing to be hyperinflationary did not change the foreign currency translation accounting from that applied in previous periods of hyperinflation.

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

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

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

As of March 31, 2003 and December 31, 2002, exchange rates of 31.38 and 31.78 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 convertible outside of their countries. Accordingly, the translation of amounts recorded in these currencies into US dollars should not be construed as a representation that such currency amounts have been, could be or will in the future be converted into US dollars at the exchange rate shown or at any other exchange rate.

(Millions of US dollars, unless otherwise noted)

Note 2. Cumulative effect of change in accounting principle

Effective January 1, 2003, the Group adopted SFAS No. 143, *"Accounting for Asset Retirement Obligations."* This new accounting standard applies to legal obligations associated with the retirement of tangible long-lived assets. SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. Subsequently, the liability is accreted for the passage of time and the related asset is depreciated over its estimated useful life. The adoption of SFAS No. 143 affected the accounting and reporting of the assets, liabilities and expenses related to these obligations. As of January 1, 2003, the Group recorded a cumulative-effect adjustment resulting in an after-tax increase to net income of $132 million in relation to this change in accounting principle, including the Group's share of the effect of adoption by its equity affiliates. The effect of adoption also included an increase of net property, plant and equipment of $330 million, minority interest liability of $12 million, non-current deferred income tax assets and liabilities of a net $46 million and the establishment of an asset retirement obligation of $140 million.

Other than the cumulative-effect adjustment, the effect of the new accounting standard on the first quarter 2003 net income was not materially different from what the result would have been under SFAS No. 19, *"Financial Accounting and Reporting by Oil and Gas Producing Companies."* Included in depreciation, depletion and amortization in the first quarter 2003, was $2 million of expenses related to depletion of the increase of property, plant and equipment resulting from the adoption of SFAS No. 143. Included in operating expenses in the first quarter 2003, was $6 million of expenses related to the accretion of the asset retirement obligation. Other changes in the asset retirement obligation during the first quarter 2003 related to new liabilities and changes in foreign exchange, and were not significant. As of March 31, 2003, the asset retirement obligation amounted to $153 million, of which $10 million was included in other current liabilities.

The following table shows what the Group's net income and net income per share would have been in the first quarter 2002 if the provisions of SFAS No. 143 had been applied in that period, compared with net income and net income per share recorded in the first quarter 2003.

	For the three months ended March 31, 2003	**For the three months ended March 31, 2002**
Net income		
Reported net income	820	243
Cumulative effect of adoption of SFAS No. 143, net of tax	(132)	-
SFAS No. 19 depletion for abandonment and restoration, net of tax	-	10
Pro-forma SFAS No. 143 accretion and depletion expenses, net of tax	-	(6)
Adjusted net income	**688**	**247**
Per share of common stock (US dollars):		
Reported net income	1.00	0.30
Cumulative effect of adoption of SFAS No. 143, net of tax	(0.16)	-
SFAS No. 19 depletion for abandonment and restoration, net of tax	-	0.01
Pro-forma SFAS No. 143 accretion and depletion expenses, net of tax	-	(0.01)
Adjusted net income - basic	0.84	0.30
Reported net income	0.99	0.30
Cumulative effect of adoption of SFAS No. 143, net of tax	(0.16)	-
SFAS No. 19 depletion for abandonment and restoration, net of tax	-	0.01
Pro-forma SFAS No. 143 accretion and depletion expenses, net of tax	-	(0.01)
Adjusted net income - diluted	0.83	0.30

(Millions of US dollars, unless otherwise noted)

Note 3. Recent accounting pronouncements

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, *"Consolidation of Variable Interest Entities"* ("Interpretation No. 46"), which addresses when a company should include in its financial statements the assets, liabilities and activities of another entity.

The consolidation requirements of Interpretation No. 46 apply immediately to variable interest entities created after January 31, 2003. For variable interest entities created before February 1, 2003, Interpretation No. 46 must be adopted in the first reporting period beginning after June 15, 2003.

There have been no variable interest entities created after January 31, 2003 in which the Group has an interest. The Group is reviewing its financial arrangements entered into before February 1, 2003 to identify any that might qualify as variable interest entities. There is a reasonable possibility that certain joint ventures in which the Group has an interest might be variable interest entities. These joint ventures are operating entities and the other equity investors are third parties independent from the Group. The variable interests arise primarily because of certain guarantees extended by the Group to the joint ventures, which are disclosed in Note 12 "Letters of credit and financial guarantees." However, the Group does not expect any significant impact on net income if it is required to consolidate any of these possible variable interest entities because the Group's share of net income in these entities is already included in the Group's consolidated statements of income.

In April 2003, the FASB issued SFAS No. 149, *"Amendment of Statement 133 on Derivative Instruments and Hedging Activities."* SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133 *"Accounting for Derivative Instruments and Hedging Activities."* The Statement is effective for contracts entered into or modified after June 30, 2003, except for the provisions that relate to previously effective SFAS No. 133 Implementation issues, and for hedging relationships designated after June 30, 2003. The Group does not expect any material impact of adopting SFAS No. 149.

In May 2003, the FASB issued SFAS No. 150, *"Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity."* SFAS No. 150 establishes standards for classification and measurement of certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Group does not expect any material impact of adopting SFAS No. 150.

Note 4. Income taxes

The combined statutory income tax rate in the Russian Federation during the periods ended March 31, 2003 and 2002 was 24%. The Group's effective tax rate was higher for the period ended March 31, 2003 compared to the period ended March 31, 2002 due to higher non-deductible costs anticipated for 2003 compared to those estimated in the Group's March 31, 2002 interim statements for 2002. The effective tax rate for the first quarter 2003 is comparable to the 2002 effective tax rate for the full year.

Note 5. Cash and cash equivalents

	As of March 31, 2003	As of December 31, 2002
Cash held in Russian rubles	176	171
Cash held in banking subsidiaries in Russian rubles	263	262
Cash held in other currencies	415	645
Cash held in banking subsidiaries in other currencies	135	174
Total cash and cash equivalents	**989**	**1,252**

(Millions of US dollars, unless otherwise noted)

Note 6. Accounts and notes receivable

	As of March 31, 2003	As of December 31, 2002
Trade accounts and notes receivable (net of provisions of $77 million and $57 million as of March 31, 2003 and December 31, 2002, respectively)	1,662	1,354
Current VAT recoverable	788	645
Short-term loans receivable of banking subsidiaries (net of provisions of $15 million as of March 31, 2003 and December 31, 2002)	282	266
Other current accounts receivable (net of provisions of $30 million and $28 million as of March 31, 2003 and December 31, 2002, respectively)	253	246
Total accounts and notes receivable, net	**2,985**	**2,511**

Note 7. Assets held for sale

On December 20, 2002, a Group company entered into a contract with INPEX Corporation, a Japanese company, to sell the Group company's 10% interest in a production sharing agreement ("PSA") operated by the Azerbaijan International Operating Company. The purpose of this PSA is to explore and develop the Azeri and Chirag fields and the deep water portion of the Guneshli field in the Azeri sector of the Caspian Sea. As of March 31, 2003 and December 31, 2002, the Group has classified the associated assets as held for sale on the consolidated balance sheets. Included in "Assets held for sale" were property, plant and equipment of $273 million and other current assets of $6 million. Included in "Other current liabilities" were liabilities of $72 million, consisting primarily of current accounts payable, directly related to and to be transferred with the assets held for sale. The sale was completed on April 28, 2003 for approximately $1,354 million cash, subject to certain post-closing adjustments.

Note 8. Short-term borrowings and current portion of long-term debt

	As of March 31, 2003	As of December 31, 2002
Short-term borrowings	771	740
Current portion of long-term debt	1,231	1,032
Total short-term borrowings and current portion of long-term debt	**2,002**	**1,772**

Short-term borrowings are loans from various third parties and are generally secured by export sales, property, plant and equipment and securities.

Note 9. Long-term debt

	As of March 31, 2003	As of December 31, 2002
Long-term loans and borrowings from third parties	1,735	1,702
Long-term loans and borrowings from related parties	1	1
1% Convertible US dollar bonds, maturing 2003	462	455
3.5% Convertible US dollar bonds, maturing 2007	355	351
Variable interest unsecured Russian ruble bonds, maturing 2003	96	94
Capital lease obligation	96	95
Total long-term debt	2,745	2,698
Current portion of long-term debt	(1,231)	(1,032)
Total non-current portion of long-term debt	**1,514**	**1,666**

(Millions of US dollars, unless otherwise noted)

Note 9. Long-term debt (continued)

Long-term loans and borrowings

Long-term loans and borrowings are primarily repayable in US dollars, maturing from 2003 through 2027 and are generally secured by export sales, property, plant and equipment and securities.

Convertible US dollar bonds

On November 3, 1997, a Group company issued 350,000 high yield and premium exchangeable redeemable bonds with a face value of $1,000 each, maturing on November 3, 2003, and exchangeable for 5.625 global depository receipts ("GDRs") of the Company per bond. The bonds are convertible into GDRs 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 153.314% 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. During the second half of 2002, a Group company repurchased 36,357 bonds on the open market.

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 11.948 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.

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

Russian ruble bonds

On August 13, 1999, the Company issued three million variable interest rate Russian ruble bonds with a face value of 1,000 Russian rubles each, maturing on August 13, 2003. The bonds are unsecured and bear interest at 6% per annum adjusted for Russian ruble to dollar devaluation, payable semi-annually. The principal is repayable at maturity date at face value in Russian rubles.

Note 10. Comprehensive income

	For the three months ended March 31, 2003	**For the three months ended March 31, 2002**
Net income	820	243
Other comprehensive loss:		
Foreign currency translation adjustment	(1)	(2)
Comprehensive income	**819**	**241**

Note 11. Stockholders' equity

Common stock

	As of March 31, 2003 (millions of shares)	As of December 31, 2002 (millions of shares)
Authorized and issued common stock, par value of 0.025 Russian rubles each	850	850
Common stock held by subsidiaries not considered as outstanding	(7)	(7)
Treasury stock	(28)	(27)
Outstanding common stock	815	816

Earnings per share

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

	For the three months ended March 31, 2003	For the three months ended March 31, 2002
Income before cumulative effect of change in accounting principle	688	243
Cumulative effect of change in accounting principle	132	-
Net income related to common shares	820	243
Add back convertible debt interest (net of tax at effective rate)		
3.5% Convertible US dollar bonds, maturing 2002	-	4
1% Convertible US dollar bonds, maturing 2003	5	6
3.5% Convertible US dollar bonds, maturing 2007	7	-
Total diluted income before cumulative effect of change in accounting principle	700	253
Total diluted net income	832	253
Weighted average number of outstanding common shares (thousands of shares)	815,949	804,880
Add back treasury shares held in respect of convertible debt (thousands of shares)	23,784	21,675
Weighted average number of outstanding common shares, after dilution (thousands of shares)	839,733	826,555

Note 12. Letters of credit and financial guarantees

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

	As of March 31, 2003	As of December 31, 2002
Guarantees of equity investees' debt	658	629
Guarantees of third parties' debt	41	38
Total	**699**	**667**

Guarantees issued in regard to equity investees relate to their borrowings obtained to finance capital projects and for general corporate purposes. The Group entered into these guarantees to enhance the credit standing of affiliated companies (LUKARCO and ZAO Sever-TEK). Under the terms of the guarantees the Group would be required to perform should an affiliate be in default of its loan terms, generally for the full amount as disclosed in the table above. There are no provisions for recourse to third parties, and no assets are held as collateral for the obligations of affiliates. One of the guarantees is secured by the shares of an affiliated company held by the Group, the carrying amount of which was approximately $8 million and $1 million as of March 31, 2003 and December 31, 2002, respectively. No collateral secures other guarantees. There are no amounts being carried as liabilities for the Group's obligations under these guarantees.

Note 13. Related party transactions

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

Sales of oil and oil products to related parties were $28 million and $80 million for the three months ended March 31, 2003 and 2002, respectively.

Other sales to related parties were $17 million and $13 million for the three months ended March 31, 2003 and 2002, respectively.

Purchases of oil and oil products from related parties were $91 million and $37 million for the three months ended March 31, 2003 and 2002, respectively.

Purchases of construction services from related parties were $85 million and $58 million for the three months ended March 31, 2003 and 2002, respectively.

Purchases of insurance services from related parties were $43 million and $32 million during the three months ended March 31, 2003 and 2002, respectively.

Other purchases from related parties were $8 million and $2 million for the three months ended March 31, 2003 and 2002, respectively.

Amounts receivable from related parties, including loans and advances, were $347 million and $267 million as of March 31, 2003 and December 31, 2002, respectively. Amounts payable to related parties were $106 million and $99 million as of March 31, 2003 and December 31, 2002, respectively.

As of March 31, 2003 and December 31, 2002 the Government of the Russian Federation owned 8% of the shares of the common stock of the Company. During the three months ended March 31, 2002, the Government's ownership was 14%. The Russian Federation also owns, controls, or has significant influence over the operations of many other companies and enterprises in the Russian Federation and has a significant influence on the operation of business and the economic environment. A significant part of the activity of Group companies is linked to companies belonging to or controlled by the Russian Federation. The Russian Federation is a customer and supplier of the Group through numerous affiliated and other related organizations. Management consider such trading relationships as part of the normal course of conducting business in the Russian Federation and consider that such relationships will remain for the foreseeable future. Accordingly, information on these transactions is not disclosed as related party transactions.

Note 14. Segment information

Presented below is information about the Group's operating and geographical segments for the periods ended March 31, 2003 and 2002, in accordance with SFAS No. 131, *"Disclosures about Segments of an Enterprise and Related Information."*

(Millions of US dollars, unless otherwise noted)

Note 14. Segment information (continued)

The Group has four operating segments - exploration and production; refining, marketing and distribution; chemicals and other business segments. The Group previously included the chemicals segment within the refining, marketing and distribution segment. 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 chemicals products. Activities of the other businesses operating segment include the development of businesses beyond the Group's traditional operations.

The segment information for the period ended March 31, 2002 was restated to reflect the change in composition of the Group's operating segments.

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, 2003

	Exploration and production	Refining, marketing and distribution	Chemicals	Other	Elimination	Consolidated
Sales						
Third parties	381	4,476	195	4	-	5,056
Inter-segment	1,211	57	2	10	(1,280)	-
Total sales	1,592	4,533	197	14	(1,280)	5,056
Operating expenses and total cost of purchases	558	2,505	162	6	(1,284)	1,947
Depreciation, depletion and amortization expense	149	78	1	1	-	229
Interest expense	24	49	1	14	(26)	62
Income tax expense	46	216	2	4	-	268
Net income	195	561	10	7	47	820
Total assets	13,918	12,883	208	1,177	(4,704)	23,482
Capital expenditures	391	168	4	5	-	568

(Millions of US dollars, unless otherwise noted)

Note 14. Segment information (continued)

For the three months ended March 31, 2002

	Exploration and production	Refining, marketing and distribution	Chemicals	Other	Elimination	Consolidated
Sales						
Third parties	252	2,467	123	5	-	2,847
Inter-segment	828	61	1	15	(905)	-
Total sales	1,080	2,528	124	20	(905)	2,847
Operating expenses and total cost of purchases	452	1,394	103	9	(905)	1,053
Depreciation, depletion and amortization expense	159	77	1	-	-	237
Interest expense	23	40	1	12	(9)	67
Income tax expense	48	22	1	3	-	74
Net (loss) income	(11)	236	2	14	2	243
Total assets	11,961	10,423	67	820	(3,266)	20,005
Capital expenditures	404	132	1	1	-	538

Geographical segments

	For the three months ended March 31, 2003	**For the three months ended March 31, 2002**
Sales of crude oil within Russia	51	101
Export of crude oil and sales of oil of foreign subsidiaries	1,639	947
Sales of refined product within Russia	839	530
Export of refined product and sales of refined products of foreign subsidiaries	2,077	988
Sales of chemicals within Russia	35	30
Export of chemicals and sales of chemicals by foreign subsidiaries	160	93
Other sales within Russia	153	108
Other export sales and other sales of foreign subsidiaries	102	50
Total sales	**5,056**	**2,847**

For the three months ended March 31, 2003

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	102	1,281	3,673	-	5,056
Inter-segment	675	1,960	7	(2,642)	-
Total sales	777	3,241	3,680	(2,642)	5,056
Operating expenses and total cost of purchases	264	1,222	3,109	(2,648)	1,947
Depreciation, depletion and amortization expense	76	120	33	-	229
Interest expense	4	49	13	(4)	62
Income tax expense	10	253	5	-	268
Net income	62	705	71	(18)	820
Total assets	5,860	13,957	5,844	(2,179)	23,482
Capital expenditures	99	361	108	-	568

(Millions of US dollars, unless otherwise noted)

Note 14. Segment information (continued)

For the three months ended March 31, 2002

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	65	822	1,960	-	2,847
Inter-segment	465	1,185	15	(1,665)	-
Total sales	530	2,007	1,975	(1,665)	2,847
Operating expenses and total cost of purchases	227	823	1,668	(1,665)	1,053
Depreciation, depletion and amortization expense	80	121	36	-	237
Interest expense	5	42	20	-	67
Income tax expense	20	53	1	-	74
Net (loss) income	(34)	250	23	4	243
Total assets	5,413	12,211	4,102	(1,721)	20,005
Capital expenditures	94	405	39	-	538

Note 15. Contingencies

Litigation and claims

On November 27, 2001, Archangel Diamond Corporation (“ADC”), a Canadian diamond development company, filed a lawsuit in the district court of Denver, Colorado, against AGD, a Group company, and the Company (together the “Defendants”) claiming compensation for damage allegedly caused by the Defendants relating to Almazny Bereg, a joint venture between AGD and ADC. ADC claims, among other things, that the Defendants interfered with the transfer of a diamond exploration license which was subject to an agreement between ADC and AGD. The total damages claimed by ADC are $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 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. This appeal is still pending. The Company does not believe that the ultimate resolution of this matter will have a material adverse effect on its financial condition.

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

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 changing legislation, which may be applied retroactively and is sometimes 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. Such factors may create taxation risks in the Russian Federation and other countries 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.

Note 15. Contingencies (continued)

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, 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 could be significant.

Other matters

During July 2001, the Group temporarily shut down operations of the Petrotel refinery due to the economic conditions in Romania. The refinery remains closed as of the date of these consolidated financial statements. Management has recently completed and approved the results of a feasibility study and investment program to upgrade the Petrotel refinery and resume operations during 2004. However, if management ultimately decides to sell or abandon the refinery, the Group may be exposed to losses on the carrying value of property, plant and equipment of up to approximately $60 million. Additionally, a decision to abandon the refinery may result in claims against the Group's future investment commitments.

Note 16. Subsequent events

In the second quarter 2003, the Group acquired the remaining 27% of shares in ZAO LUKOIL-Perm from a related party, which was controlled by certain members of the Group's management, for $398 million, thereby increasing the Group's ownership stake in ZAO LUKOIL-Perm to 100%. The amount of consideration was based on an independent valuation. ZAO LUKOIL-Perm is an exploration and production company operating in European Russia. Initial payment for these shares amounting to $120 million is included in other non-current assets as of March 31, 2003.

In the second quarter 2003, the Group acquired 80.8% of the shares in OAO Yaregskaya Nefte-Titan Company ("YaNTK") for $240 million. YaNTK is a company with significant oil and titanium reserves operating in the Komi Republic of the Russian Federation.

The Group is in the process of completing the acquisition of controlling interests in OAO Tebukneft, OAO Ukhtaneft and ZAO RKM-Oil. These entities are oil companies operating in the Komi Republic of the Russian Federation. Loans which will form a part of consideration for these companies of $121 million are included in other non-current assets as of March 31, 2003.

Subsequent to March 31, 2003, the Group has sold its 10% interest in a PSA operated by the Azerbaijan International Operating Company as described in Note 7 "Assets held for sale."