



ОАО ЛУКОЙЛ

CONSOLIDATED FINANCIAL STATEMENTS

(prepared in accordance with US GAAP)

**As of December 31, 2002 and 2001
and for each of the years in the three year period
ended December 31, 2002**

Independent Auditors' Report

To the Board of Directors of OAO LUKOIL:

We have audited the accompanying consolidated balance sheets of OAO LUKOIL and its subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2002. These consolidated financial statements are the responsibility of the management of OAO LUKOIL. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OAO LUKOIL and its subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

KPMG Limited

May 30, 2003
Moscow, Russian Federation

OAO LUKOIL
Consolidated Balance Sheets
As of December 31, 2002 and 2001
(Millions of US dollars, unless otherwise noted)

	Note	2002	2001
Assets			
Current assets			
Cash and cash equivalents	3	1,252	1,170
Short-term investments		278	218
Accounts and notes receivable, net	5	2,511	2,230
Inventories	6	1,063	829
Prepaid taxes and other expenses		736	889
Other current assets		356	340
Assets held for sale	10	279	-
Total current assets		6,475	5,676
Investments	7	859	770
Property, plant and equipment	8	13,499	12,296
Deferred income tax assets	14	206	291
Goodwill and other intangible assets	9	399	485
Other non-current assets		563	424
Total assets		22,001	19,942
Liabilities and Stockholders' equity			
Current liabilities			
Accounts payable		1,293	1,402
Short-term borrowings and current portion of long-term debt	11	1,772	1,031
Customer deposits placed in banking subsidiaries	12	755	449
Taxes payable		640	522
Other current liabilities		337	421
Total current liabilities		4,797	3,825
Long-term debt	13, 17	1,666	1,948
Deferred income tax liabilities	14	261	390
Other long-term liabilities		397	463
Minority interest in subsidiary companies		880	931
Total liabilities		8,001	7,557
Stockholders' equity			
Common stock			
(850 million shares of par value of 0.025 Russian rubles each, authorized in 2002 and 2001; 850 million shares issued in 2002 (including 7 million held by subsidiaries) and in 2001 (including 19 million held by subsidiaries); 816 million and 805 million shares outstanding in 2002 and 2001, respectively)	16	15	15
Treasury stock			
(common stock, at cost; 27 million and 26 million shares in 2002 and 2001, respectively)		(428)	(403)
Additional paid-in capital		3,229	3,044
Retained earnings		11,186	9,738
Accumulated other comprehensive loss		(2)	(9)
Total stockholders' equity		14,000	12,385
Total liabilities and stockholders' equity		22,001	19,942

President of OAO LUKOIL
Alekperov V.Y.

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

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

OA O LUKOIL
Consolidated Statements of Income
For the years ended December 31, 2002, 2001 and 2000
(Millions of US dollars, except share data)

	Note	2002	2001	2000
Revenues				
Sales (including excise and export tariffs)	22	15,334	13,426	13,210
Equity share in income of affiliates	7	115	136	230
Total revenues		15,449	13,562	13,440
Costs and other deductions				
Operating expenses		(2,403)	(2,584)	(1,628)
Cost of purchased crude oil and petroleum products		(2,693)	(2,087)	(2,597)
Transportation expenses		(1,414)	(919)	(735)
Selling, general and administrative expenses		(1,313)	(1,375)	(1,221)
Depreciation, depletion and amortization		(824)	(886)	(838)
Taxes other than income taxes	14	(1,972)	(1,010)	(1,050)
Excise and export tariffs		(1,996)	(1,456)	(932)
Exploration expense		(89)	(144)	(130)
Loss on disposal and impairment of assets		(83)	(153)	(247)
Income from operating activities		2,662	2,948	4,062
Interest expense		(222)	(257)	(198)
Interest and dividend income		160	146	209
Currency translation gain (loss)		40	(33)	1
Other non-operating income		11	31	71
Minority interest		(69)	(52)	(61)
Income before income taxes		2,582	2,783	4,084
Current income taxes		(834)	(861)	(790)
Deferred income taxes		95	187	18
Total income tax expense	14	(739)	(674)	(772)
Net income		1,843	2,109	3,312
Dividends declared on preferred stock		-	(157)	(47)
Net income available for common stockholders		1,843	1,952	3,265
Basic earnings per share of common stock (US dollars)	16	2.26	2.68	4.83
Diluted earnings per share of common stock (US dollars)	16	2.26	2.66	4.73

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

OA O LUKOIL
Consolidated Statements of Stockholders' Equity and Comprehensive Income
For the years ended December 31, 2002, 2001 and 2000
(Millions of US dollars, unless otherwise noted)

	2002		2001		2000	
	Stockholders' equity	Comprehensive income	Stockholders' equity	Comprehensive income	Stockholders' equity	Comprehensive income
Common stock						
Balance at January 1	15		14		14	
Conversion of preferred stock into common stock	-		1		-	
Outstanding at December 31	15		15		14	
Preferred stock						
Balance at January 1	-		1		1	
Conversion of preferred stock into common stock	-		(1)		-	
Outstanding at December 31	-		-		1	
Treasury stock						
Balance at January 1	(403)		(376)		(549)	
Stock purchased	(326)		(185)		(1,021)	
Stock issued	301		158		1,194	
Balance at December 31	(428)		(403)		(376)	
Additional paid-in capital						
Balance at January 1	3,044		2,895		2,816	
Premium on new shares issued	170		147		-	
Contributions required and received under privatization tender	-		-		117	
Proceeds from issuance of treasury stock in excess of carrying amount	15		2		292	
Put option on Company's common stock	-		-		(330)	
Balance at December 31	3,229		3,044		2,895	
Retained earnings						
Balance at January 1	9,738	-	7,994	-	4,803	-
Net income	1,843	1,843	2,109	2,109	3,312	3,312
Dividends on preferred stock	-	-	(157)	-	(47)	-
Dividends on common stock	(395)	-	(208)	-	(74)	-
Balance at December 31	11,186		9,738		7,994	
Accumulated other comprehensive loss, net of tax						
Balance at January 1	(9)		(9)		(12)	
Foreign currency translation adjustment	(7)	(7)	14	14	3	3
Minimum pension liability adjustment	14	14	(14)	(14)	-	-
Balance at December 31	(2)		(9)		(9)	
Total comprehensive income for the year		1,850		2,109		3,315
Total stockholders' equity as of December 31	14,000		12,385		10,519	

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

OAO LUKOIL

Consolidated Statements of Stockholders' Equity and Comprehensive Income (continued)

For the years ended December 31, 2002, 2001 and 2000

(Millions of US dollars, unless otherwise noted)

	Share activity		
	2002	2001	2000
	(millions of shares)	(millions of shares)	(millions of shares)
Common stock, issued			
Balance at January 1	850	738	738
Issuance of common stock	-	35	-
Conversion of preferred stock into common stock (1 preference share into 1 common share)	-	77	-
Balance at December 31	850	850	738
Preferred stock			
Balance at January 1	-	77	77
Conversion of preferred stock into common stock	-	(77)	-
Balance at December 31	-	-	77
Treasury stock			
Balance at January 1	(26)	(23)	(62)
Purchase of treasury stock	(21)	(17)	(88)
Sales of treasury stock	20	14	127
Balance at December 31	(27)	(26)	(23)

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

OA O LUKOIL
Consolidated Statements of Cash Flows
For the years ended December 31, 2002, 2001 and 2000
(Millions of US dollars)

	2002	2001	2000
Cash flows from operating activities			
Net income	1,843	2,109	3,312
Adjustments for non-cash items:			
Depreciation, depletion and amortization	824	886	838
Equity share in income of affiliates	(115)	(136)	(230)
Loss on disposal and impairment of assets	83	153	247
Deferred income taxes	(95)	(187)	(18)
Non-cash currency translation (loss) gain	(21)	24	(29)
Non-cash investing activities	(72)	(96)	(177)
All other items – net	93	181	155
Changes in operating assets and liabilities:			
Accounts and notes receivable	(125)	931	(1,142)
Short-term loans receivable of a banking subsidiary	39	(95)	(71)
Net movements of short-term borrowings of a banking subsidiary	171	208	102
Inventories	(201)	(56)	(50)
Accounts payable	(273)	(1,077)	541
Taxes payable	30	109	(195)
Other current assets and liabilities	215	(281)	(515)
Net cash provided by operating activities	2,396	2,673	2,768
Cash flows from investing activities			
Capital expenditures	(2,072)	(2,521)	(1,674)
Proceeds from sale of property, plant and equipment	34	45	10
Purchases of investments	(302)	(314)	(197)
Proceeds from sale of investments	118	228	47
Acquisitions of subsidiaries, net of cash acquired	(168)	(499)	(98)
Net cash used in investing activities	(2,390)	(3,061)	(1,912)
Cash flows from financing activities			
Net movements of short-term borrowings	203	121	11
Proceeds from issuance of long-term debt	879	938	291
Principal payments of long-term debt	(579)	(349)	(439)
Dividends paid	(423)	(244)	(118)
Financing received from stockholders under privatization tender	-	-	50
Proceeds from issuance of common stock	18	-	-
Purchase of treasury stock	(326)	(185)	(1,021)
Proceeds from sale of treasury stock	316	158	1,005
Other – net	8	32	(7)
Net cash provided by (used in) financing activities	96	471	(228)
Effect of exchange rate changes on cash and cash equivalents	(20)	(50)	(28)
Net increase in cash and cash equivalents	82	33	600
Cash and cash equivalents at beginning of year	1,170	1,137	537
Cash and cash equivalents at end of year	1,252	1,170	1,137
Supplemental disclosures of cash flow information			
Interest paid	285	276	170
Income taxes paid	875	833	865

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

Note 1. Organization and environment

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

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

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

Business and economic environment

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

The accompanying financial statements reflect management’s assessment of the impact of the business environment in the countries in which the Group operates on the financial position of the Group. The impact on the Group of the current and future business environments may differ from management’s assessment and such differences may be significant.

Basis of preparation

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

Note 2. Summary of significant accounting policies

Principles of consolidation

The financial position and results of subsidiaries of which the Company directly or indirectly owns more than 50% of the voting interest and which the Company controls, are included with the financial position and results of the Company in these consolidated financial statements. Other significant investments in companies of which the Company directly or indirectly owns between 20% and 50% of the voting interest and over which the Company exercises significant influence but not control, are accounted for using the equity method of accounting. Investments in other companies are included in “Investments”.

Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions which affect reported amounts of assets, liabilities, revenues and expenses. Eventual actual amounts could differ from such estimates.

Revenue recognition

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

Note 2. Summary of significant accounting policies (continued)

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

Foreign currency translation

Because the economy of the Russian Federation is considered to be hyperinflationary, the US dollar is the functional currency of the Company in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 52, “*Foreign Currency Translation*.” For the purposes of presenting financial statements prepared in conformity with US GAAP, the US dollar is also the reporting currency of the Group.

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

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

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

As of December 31, 2002, 2001 and 2000, exchange rates of 31.78, 30.14 and 28.16 Russian rubles, respectively to the US dollar 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.

Effective January 1, 2003, the Russian economy ceased to be considered hyperinflationary in accordance with the provisions of SFAS No. 52. 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 will continue to be the reporting currency for the Group under US GAAP.

Cash and cash equivalents

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

Cash with restrictions on immediate use

Cash funds for which restrictions on immediate use exist are accounted for within other non-current assets. Interest bearing security deposits with credit institutions that do not reduce the balance on long-term loan accounts are accounted for within long-term investments.

Note 2. Summary of significant accounting policies (continued)

Accounts and notes receivable

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

Inventories

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

Investments

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

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

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

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

Property, plant and equipment

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

Depreciation, depletion and amortization of capitalized costs of oil and gas properties is calculated using the unit-of-production method based upon proved reserves for the cost of property acquisitions and proved developed reserves for exploration and development costs. Estimated costs of dismantling oil and gas production facilities, including abandonment and site restoration costs are included as a component of depreciation, depletion and amortization.

Production and related overhead costs are expensed as incurred.

Note 2. Summary of significant accounting policies (continued)

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

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

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

Goodwill and other intangible assets

Goodwill represents the excess of purchase price over the fair value of net assets acquired. The Group adopted the provisions of SFAS No. 142, “*Goodwill and Other Intangible Assets*” as of January 1, 2002. Under SFAS No. 142 goodwill and intangible assets with indefinite useful lives are no longer amortized as they were prior to 2002, but are instead tested for impairment at least annually.

Intangible assets that have limited useful lives are amortized on a straight-line basis over the shorter of their useful or legal lives.

Impairment of long-lived assets

In accordance with SFAS No. 144, “*Accounting for the Impairment or Disposal of Long-Lived Assets*,” long-lived assets, such as oil and gas properties, other property, plant, and equipment, and purchased intangibles subject to amortization, are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to the estimated undiscounted future cash flows expected to be generated by that group. If the carrying amount of an asset group exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by writing down the carrying amount to the estimated fair value of the asset group, generally determined as discounted future net cash flows. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale are presented separately in the appropriate asset and liability sections of the balance sheet.

Prior to the January 1, 2002 adoption of SFAS No. 144, the Group accounted for long-lived assets in accordance with SFAS No. 121, “*Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*.”

Deferred income taxes

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

Note 2. Summary of significant accounting policies (continued)

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

Interest-bearing borrowings

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

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

Pension benefits

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

Treasury stock

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

Earnings per share

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

Contingencies

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

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

Note 2. Summary of significant accounting policies (continued)

Environmental expenditures

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

Use of derivative instruments

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

Recent accounting pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, *"Accounting for Asset Retirement Obligations."* 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 will be accreted for the passage of time and the related asset will be depreciated over its estimated useful life. The Group is required to adopt SFAS No. 143 effective January 1, 2003. Adoption of SFAS No. 143 affects future accounting and reporting of the assets, liabilities and expenses related to these obligations. In the first quarter of 2003, the Group expects to record a cumulative-effect adjustment resulting in an after-tax increase to net income of between \$113 million to \$133 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 will also include an increase of net property, plant and equipment of between \$315 million to \$335 million and the establishment of an asset retirement obligation of between \$153 million and \$173 million.

In April 2002, the FASB issued SFAS No. 145, *"Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13 and Technical Corrections."* SFAS No. 145 primarily addresses income statement classification of gains and losses on extinguishments of debt and accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. The Group is required to adopt SFAS No. 145 effective January 1, 2003. The Group does not expect any material impact of adopting SFAS No. 145.

In July 2002, the FASB issued SFAS No. 146, *"Accounting for Costs Associated with Exit or Disposal Activities."* The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The provisions of this statement are to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Group does not expect any material impact of adopting SFAS No. 146.

Note 2. Summary of significant accounting policies (continued)

In December 2002, the FASB issued SFAS No. 148, *“Accounting for Stock-Based Compensations – Transition and Disclosure,”* which amends SFAS No. 123, *“Accounting for Stock-Based Compensation.”* The standard permits two additional transition methods for entities that adopt the fair-value-based method of accounting for stock-based employee compensation and amends the disclosure requirements in both annual and interim financial statements. The Group is required to adopt SFAS No. 148 effective January 1, 2003. The Group does not expect any material impact of adopting SFAS No. 148.

In November 2002, the FASB issued Interpretation No. 45, *“Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others”* (“Interpretation No. 45”), which addresses the disclosure to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. Interpretation No. 45 also requires recognition of a liability by a guarantor at the inception of certain guarantees.

Interpretation No. 45 requires the guarantor to recognize a liability for the non-contingent component of the guarantee, this is the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The initial measurement of this liability is the fair value of the guarantee at inception. The recognition of the liability is required even if it is not probable that payments will be required under the guarantee or if the guarantee was issued with a premium payment or as a part of a transaction with multiple elements.

The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002 and are not expected to have a material effect on the Group’s consolidated financial statements. The disclosure requirements of Interpretation No. 45 are effective for fiscal years ended after December 15, 2002 and are included in Note 19 “Letters of credit and financial guarantees.”

In January 2003, the 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.

In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A variable interest entity often holds financial assets, including loans or receivables, real estate or other property. A variable interest entity may be essentially passive or it may engage in research and development or other activities on behalf of another company. Interpretation No. 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity’s activities or entitled to receive a majority of the entity’s residual returns or both.

The consolidation requirements of Interpretation No. 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. In order to comply with the provisions of Interpretation No. 46, the Group is reviewing its financial arrangements 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. Summarized financial data for these entities are a part of the data disclosed in Note 7 “Investments.” 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 19 “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 of these joint ventures is already included in the Group’s consolidated statements of income.

OA O LUKOIL
Notes to Consolidated Financial Statements
(Millions of US dollars, except as indicated)

Note 2. Summary of significant accounting policies (continued)

Comparative amounts

Prior year amounts have been reclassified, where applicable, to conform with current year presentation.

Note 3. Cash and cash equivalents

	As of December 31, 2002	As of December 31, 2001
Cash held in Russian rubles	171	225
Cash held in banking subsidiaries in Russian rubles	262	148
Cash held in other currencies	645	580
Cash held in banking subsidiaries in other currencies	174	217
Total cash and cash equivalents	1,252	1,170

Note 4. Non-cash transactions

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

	Year ended December 31, 2002	Year ended December 31, 2001	Year ended December 31, 2000
Net non-cash investing activity	72	96	177
Repayment of bonds through issuance of common stock	152	-	-
Total non-cash transactions	224	96	177

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

	Year ended December 31, 2002	Year ended December 31, 2001	Year ended December 31, 2000
Net cash used in investing activity	2,390	3,061	1,912
Net non-cash investing activity	72	96	177
Total non-cash transactions	2,462	3,157	2,089

Note 18 "Business combinations" sets out information about acquisitions partially completed through the exchange of common stock.

Note 5. Accounts and notes receivable

	As of December 31, 2002	As of December 31, 2001
Trade accounts and notes receivable (net of provisions of \$57 million and \$77 million as of December 31, 2002 and 2001, respectively)	1,354	1,383
Current VAT recoverable	645	434
Short-term loans receivable of a banking subsidiary (net of provisions of \$15 million and \$14 million as of December 31, 2002 and 2001, respectively)	266	236
Other current accounts receivable (net of provisions of \$28 million and \$21 million as of December 31, 2002 and 2001, respectively)	246	177
Total accounts and notes receivable	2,511	2,230

OA O LUKOIL
Notes to Consolidated Financial Statements
(Millions of US dollars, except as indicated)

Note 6. Inventories

	As of December 31, 2002	As of December 31, 2001
Crude oil and petroleum products	630	389
Materials for extraction and drilling	135	218
Materials and supplies for refining	65	80
Other goods, materials and supplies	233	142
Total inventories	1,063	829

Note 7. Investments

	As of December 31, 2002	As of December 31, 2001
Investments in "equity method" affiliates and joint ventures	447	382
Cash security deposit in a bank	200	215
Other long-term investments	212	173
Total long-term investments	859	770

Investments in "equity method" affiliates and joint ventures

The summarized financial information below is in respect of corporate joint ventures, companies of which the Group owns less than a majority and companies where the Group owns a majority of voting stock, but does not possess a majority of voting rights. The companies are primarily engaged in crude oil exploration, production, marketing, refining and distribution operations in the Russian Federation and crude oil production and marketing in Kazakhstan, Azerbaijan and Egypt.

	Year ended December 31, 2002		Year ended December 31, 2001		Year ended December 31, 2000	
	Total	Group's share	Total	Group's share	Total	Group's share
Revenues	1,516	660	1,696	694	2,403	1,040
Income before income taxes	333	171	436	197	691	318
Less income taxes	(109)	(56)	(115)	(61)	(209)	(88)
Net income	224	115	321	136	482	230

	As of December 31, 2002		As of December 31, 2001	
	Total	Group's share	Total	Group's share
Current assets	610	246	493	194
Property, plant and equipment, net	2,117	1,044	1,903	941
Other non-current assets	196	85	126	56
Total assets	2,923	1,375	2,522	1,191
Short-term debt	121	58	65	27
Other current liabilities	381	137	452	173
Long-term debt	1,437	723	1,214	579
Other non-current liabilities	25	10	60	30
Net assets	959	447	731	382

OAO LUKOIL
Notes to Consolidated Financial Statements
(Millions of US dollars, except as indicated)

Note 8. Property, plant and equipment

	At cost		Net	
	As of December 31, 2002	As of December 31, 2001	As of December 31, 2002	As of December 31, 2001
Exploration and Production:				
Western Siberia	11,680	11,281	4,354	4,193
European Russia	9,287	8,928	4,516	4,148
International	700	868	675	727
Total	21,667	21,077	9,545	9,068
Refining, Marketing and Distribution:				
Western Siberia	46	82	33	58
European Russia	4,905	4,307	2,874	2,335
International	1,775	1,511	833	668
Total	6,726	5,900	3,740	3,061
Other:				
Western Siberia	133	134	71	74
European Russia	151	81	113	72
International	58	47	30	21
Total	342	262	214	167
Total property, plant and equipment	28,735	27,239	13,499	12,296

Site restoration and abandonment

The Group has estimated future site restoration and abandonment costs at approximately \$1,300 million and \$1,550 million as of December 31, 2002 and 2001, respectively. Of these amounts, \$286 million and \$267 million are included in accumulated depreciation, depletion and amortization as of December 31, 2002 and 2001, respectively.

Note 9. Goodwill and other intangible assets

The carrying value of goodwill and other intangible assets as of December 31, 2002 and 2001 was as follows:

	As of December 31, 2002	As of December 31, 2001
Amortized intangible assets		
Software	56	23
Licenses and other assets	26	27
Nonamortized pension intangible assets	24	193
Goodwill	293	242
Total goodwill and other intangible assets	399	485

The change in the carrying amount of goodwill for the year ended December 31, 2002 was as follows:

Balance as of January 1, 2002	242
Goodwill acquired during the year	51
Balance as of December 31, 2002	293

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

Note 9. Goodwill and other intangible assets (continued)

In January 2002, the Group discontinued the amortization of goodwill in accordance with SFAS No. 142. Goodwill amortization recorded during the years ended December 31, 2001 and 2000 was \$21 million and \$34 million, respectively. The Group has completed the transitional goodwill impairment test, as required by SFAS No. 142. This included an assessment of the fair value of the Group's reporting units that have goodwill and a comparison of such fair value to each reporting unit's carrying value, including goodwill, as of January 2002. Based on this assessment, no goodwill impairment was indicated. The Group also performed the annual goodwill impairment test as of January 2003 and no goodwill impairment was indicated.

Note 10. 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 December 31, 2002, the Group has classified the associated assets as held for sale on the consolidated balance sheet. 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 11. Short-term borrowings and current portion of long-term debt

	As of December 31, 2002	As of December 31, 2001
Short-term borrowings	740	553
Current portion of long-term debt	1,032	478
Total short-term borrowings and current portion of long-term debt	1,772	1,031

Short-term borrowings are loans from various third parties and are generally secured by export sales, property, plant and equipment and securities. The weighted-average interest rate on short-term borrowings from third parties was 6.0% per annum and 6.7% per annum as of December 31, 2002 and 2001, respectively.

Note 12. Customer deposits placed in banking subsidiaries

Group banking subsidiaries had customer deposits of \$755 million and \$449 million with weighted average interest rates of 3.8% and 2.8% as of December 31, 2002 and 2001, respectively.

OA O LUKOIL
Notes to Consolidated Financial Statements
(Millions of US dollars, except as indicated)

Note 13. Long-term debt

	As of December 31, 2002	As of December 31, 2001
Long-term loans and borrowings from third parties (including loans from banks in the amount of \$1,510 million, and \$1,153 million as of December 31, 2002 and 2001, respectively)	1,702	1,453
Long-term loans and borrowings from related parties	1	1
3.5% Convertible US dollar bonds, maturing 2002		298
1% Convertible US dollar bonds, maturing 2003	455	476
3.5% Convertible US dollar bonds, maturing 2007	351	-
Variable interest unsecured Russian ruble bonds, maturing 2003	94	99
Capital lease obligation	95	99
Total long-term debt	2,698	2,426
Current portion of long-term debt	(1,032)	(478)
Total non-current portion of long-term debt	1,666	1,948

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. The weighted-average interest rate on long-term loans and borrowings from third parties was 5.58%, and 6.32% per annum as of December 31, 2002 and 2001, respectively.

The most significant part of the Group's long-term debt is represented by revolving loan facilities. Details of the borrowings under such agreements are presented below.

The Company has a loan facility with Russian Commercial Bank that provides borrowings up to \$200 million. Borrowings under this loan facility bear interest at LIBOR plus 4%. At December 31, 2002 the amount outstanding under the loan facility was \$200 million.

A Group company has a revolving credit facility with International Bank of Reconstruction and Development that provides borrowings up to \$99 million. Borrowings under this credit facility bear interest at floating rates from 3.25% to 7.25%. At December 31, 2002, \$69 million was outstanding under this credit facility.

A Group company has a revolving credit facility with Chase Manhattan Bank that provides borrowings up to \$89 million. Borrowings under this credit facility bear interest at LIBOR plus 2%. At December 31, 2002, \$50 million was outstanding under this credit facility.

A Group company has revolving credit facilities with Vneshtorgbank that provide borrowings up to \$50 million. Borrowings under these credit facilities bear interest at 12%. At December 31, 2002, \$31 million was outstanding under these credit facilities.

The Group has revolving credit facilities with a number of other banks that provide borrowings up to \$257 million. The weighted-average interest rate under these credit facilities was 7.62% per annum as of December 31, 2002. At December 31, 2002 amounts outstanding under these credit facilities were \$170 million.

The Company has outstanding obligations of \$150 million under an agreement dated September 7, 2000 with the European Bank for Reconstruction and Development ("EBRD"). This loan is provided for financing the export supplies of oil and refined products, including their refining and transportation. The loan bears interest at LIBOR plus 3.5% and is payable in 2004. In accordance with the agreement all monies deposited in the Company's US dollar account with Raiffeisen Zentralbank Oesterreich AG are assigned as security to EBRD. As at December 31, 2002 and 2001 the amount of such security was nil.

Note 13. Long-term debt (continued)

Convertible US dollar bonds

On May 6, 1997, a Group company issued 230,000 convertible bonds with a face value of \$1,000 each, maturing on May 6, 2002, and convertible to fifteen global depository receipts (“GDRs”) of the Company per bond. During the second quarter of 2002, these bonds were redeemed for cash and 11,185,059 shares of common stock of the Company at the stated redemption price of 130.323% of the face value.

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 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.

Maturities of long-term debt

Annual maturities of total long-term debt during the next five years, including the portion classified as current, are \$1,032 million in 2003, \$473 million in 2004, \$503 million in 2005, \$152 million in 2006, \$408 million in 2007 and \$130 million thereafter.

Note 14. Taxes

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

The total cost of taxation to the Group is reported in the consolidated statement of income as “Total income tax expense” for income taxes and as “Taxes other than income taxes” for other types of taxation. In each category taxation is made up of taxes levied at various rates in different jurisdictions.

Note 14. Taxes (continued)

In August 2001, legislation was enacted that changed the income tax rates in the Russian Federation for 2002 and later years. Under this legislation, operations in the Russian Federation are subject to Federal and city tax rates that total 9.5% and a regional tax rate that varies from 10.5% to 14.5% at the discretion of the individual regional administration. For 2002, substantially all of the Group's operations in Russia were subject to a combined statutory tax rate of 24%. The aforementioned legislation also eliminated certain tax incentives, including investment tax credits.

During 2001, based on legislation enacted in August 2000, operations in the Russian Federation were subject to a maximum combined Federal, regional and city tax rate of 35%. During 2000, operations in the Russian Federation were subject to a maximum combined Federal, regional and city tax rate of 30%. During these and previous years, a number of concessionary tax rates and allowances were available to the Group in various jurisdictions within and outside of the Russian Federation.

As a result of taxation legislation changes in the area of Mineral Extraction and Excise Taxes, Capital Investment Concessions and Concessionary Rate Regimes, most of the concessionary rates and allowances available to the Group during 2000 and 2001 were no longer available during 2002.

There are not currently, and have not been during the three years ended December 31, 2002, any provisions in the taxation legislation of the Russian Federation to permit the Group to reduce taxable profits in a Group company by offsetting tax losses in another Group company against such profits. Tax losses of a Group company in the Russian Federation may, however, be used fully or partially to offset taxable profits in the same company in any of the ten years following the year of loss, subject to the restriction that no more than 30% of the taxable profit in any given year can be reduced by loss relief.

Domestic and foreign components of income before income taxes were:

	Year ended December 31, 2002	Year ended December 31, 2001	Year ended December 31, 2000
Domestic	2,292	2,616	4,012
Foreign	290	167	72
Income before income taxes	2,582	2,783	4,084

Domestic and foreign components of income taxes were:

	Year ended December 31, 2002	Year ended December 31, 2001	Year ended December 31, 2000
Current			
Domestic	821	849	775
Foreign	13	12	15
Current income tax expense	834	861	790
Deferred			
Domestic	(67)	(207)	(27)
Foreign	(28)	20	9
Deferred income tax benefit	(95)	(187)	(18)
Total income tax expense	739	674	772

OA O LUKOIL
Notes to Consolidated Financial Statements
(Millions of US dollars, except as indicated)

Note 14. Taxes (continued)

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

	Year ended December 31, 2002	Year ended December 31, 2001	Year ended December 31, 2000
Income before income taxes	2,582	2,783	4,084
Notional income tax at Russian statutory rates	620	974	1,225
Increase (reduction) in income tax due to:			
Non-deductible items	155	191	327
Domestic and foreign rate differences	(77)	(233)	(409)
Foreign currency gains (losses)	5	8	17
Effect of changes in tax rate	-	19	7
Investment tax credits	-	(325)	(417)
Change in valuation allowance	(25)	39	4
Other	61	1	18
Total income tax expense	739	674	772

Taxes other than income taxes were:

	Year ended December 31, 2002	Year ended December 31, 2001	Year ended December 31, 2000
Unified extraction tax	1,472	-	-
Royalty tax	-	347	259
Mineral replacement tax	-	215	150
Road users' tax	126	100	179
Social taxes and contributions	198	201	198
Property tax	101	83	50
Other taxes and contributions	75	64	214
Taxes other than income taxes	1,972	1,010	1,050

Beginning January 1, 2002 some taxes, including royalty tax, mineral replacement tax and excise on crude oil sales, were canceled and replaced with a unified extraction tax.

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

	As of December 31, 2002	As of December 31, 2001
Other current assets	98	143
Deferred income tax assets – non-current	206	291
Other current liabilities	(13)	(124)
Deferred income tax liabilities – non-current	(261)	(390)
Net deferred income tax asset (liability)	30	(80)

Note 14. Taxes (continued)

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

	As of December 31, 2002	As of December 31, 2001
Accounts receivable	48	94
Long-term liabilities	155	173
Inventories	20	42
Property, plant and equipment	55	92
Accounts payable	56	23
Long-term investments	16	4
Operating loss carry forward	55	48
Other	30	24
Total gross deferred income tax assets	435	500
Less valuation allowance	(41)	(66)
Deferred income tax assets	394	434
Property, plant and equipment	(259)	(334)
Accounts payable	(9)	(45)
Accounts and notes receivable	(10)	(36)
Inventories	(21)	(43)
Investments	(24)	(20)
Other	(41)	(36)
Deferred income tax liabilities	(364)	(514)
Net deferred income tax asset (liability)	30	(80)

As of December 31, 2002, retained earnings of foreign subsidiaries included \$910 million for which deferred taxation has not been provided because remittance of the earnings has been indefinitely postponed through reinvestment and, as a result, such amounts are considered to be permanently invested. The amount of deferred tax liability on this amount is not practicable to calculate.

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

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred income tax assets are deductible, management believes it is more likely than not that Group companies will realize the benefits of the deductible differences, net of the existing valuation allowances as of December 31, 2002 and 2001.

As of December 31, 2002, the Group had operating loss carry forwards of \$200 million of which \$24 million expire during 2006, \$33 million expire during 2008, \$33 million expire during 2009, \$89 million expire during 2012 and \$21 million have indefinite carry forward.

Note 15. Pension benefits

The Company sponsors a pension plan that covers the majority of Group employees. This plan, administered by a non-state pension fund, LUKOIL-GARANT, provides defined pension benefits based on years of service and final remuneration levels.

OAo LUKOIL
Notes to Consolidated Financial Statements
(Millions of US dollars, except as indicated)

Note 15. Pension benefits (continued)

The pension related expense was as follows:

	Year ended December 31, 2002	Year ended December 31, 2001	Year ended December 31, 2000
Service cost	10	8	7
Interest cost	52	16	22
Less expected return on plan assets	(6)	(6)	(3)
Amortization of prior service cost	22	5	5
Actuarial gain (loss)	4	(3)	-
Total expense	82	20	31

An independent actuary has assessed the benefit obligations and the fair value of plan assets for the fund as of December 31, 2002 and 2001 as summarized below:

	Year ended December 31, 2002	Year ended December 31, 2001
Benefit obligations		
Benefit obligations at January 1	367	110
Effect of exchange rate changes	(17)	(16)
Service cost	10	8
Interest cost	52	16
Plan amendments	(41)	144
Actuarial (gain) loss	(136)	108
Benefits paid	(7)	(3)
Benefit obligations at December 31	228	367
Plan assets		
Fair value of plan assets at January 1	33	24
Effect of exchange rate changes	(2)	(2)
Return on plan assets	7	6
Employer contributions	10	8
Benefits paid	(7)	(3)
Fair value of plan assets at December 31	41	33
Funded status	(187)	(334)
Unamortized prior service cost	121	193
Unrecognized actuarial (gain) loss	(71)	72
Net amount recognized	(137)	(69)
Amounts recorded in the consolidated balance sheets were:		
Accrued benefit liabilities	(161)	(281)
Intangible assets	24	193
Accumulated other comprehensive income	-	19
Net amount recognized	(137)	(69)

	As of December 31, 2002	As of December 31, 2001
Assumptions:		
Discount rate	13.3%	15.0%
Expected return on plan assets	17.2%	22.0%

Note 15. Pension benefits (continued)

In addition to the plan assets listed above, LUKOIL-GARANT holds net assets in an operating fund. The operating fund includes an insurance reserve, the purpose of which is to satisfy pension obligations should the plan assets, including contributions due from the Group, not be sufficient to meet pension obligations. The Group's contributions to the pension plan are determined without considering the assets in the insurance reserve.

During 2000, LUKOIL-GARANT acquired a group of companies from the Group. A contingent obligation to purchase 7,876,000 shares of common stock of the Company was included in the terms of the agreement of the sale (Note 16 "Stockholders' equity"). The obligation transferred to LUKOIL-GARANT will only be settled from the net assets, excluding the obligation, held by the group of companies acquired by LUKOIL-GARANT.

Note 16. Stockholders' equity

Dividends and dividend limitations

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

The Company's net profits were 47,538 million Russian rubles, 20,987 million Russian rubles and 45,686 million Russian rubles, respectively for 2002, 2001 and 2000, pursuant to the statutory financial statements, which at the US dollar exchange rates as of December 31, 2002, 2001 and 2000 amounted to \$1,496 million, \$696 million and \$1,622 million, respectively.

At the annual stockholders' meeting on June 27, 2002, dividends were declared for 2001 in the amount of 15.00 Russian rubles per common share, which at the date of the decision was equivalent to \$0.48.

At the annual stockholders' meeting on June 28, 2001, dividends were declared for 2000 in the amount of 8.00 Russian rubles per common share and 59.16 Russian rubles per preferred share, which at the date of the decision was equivalent to \$0.27 and \$2.03, respectively.

At the annual stockholders' meeting on June 8, 2000, dividends were declared for 1999 in the amount of 3.00 Russian rubles per common share and 17.45 Russian rubles per preferred share, which at the date of the decision was equivalent to \$0.11 and \$0.62, respectively.

Share capital

At the annual stockholders meeting on June 8, 2000, a resolution to increase the number of shares of common stock by 35,000,000 shares of par value of 0.025 Russian rubles each was approved. The Company issued and exchanged 18,431,061 of these shares for shares of OAO Arkhangelskgeoldobycha ("AGD") and for minority interest shareholdings of OAO LUKOIL-Ukhtaneftepererabotka and OAO LUKOIL-Kominefteproduct (Note 18 "Business combinations") and sold 16,568,939 shares to LUKinter Finance B.V., a Group company. The results of these issues were registered by the Russian Federal Commission for Securities on April 27 and October 9, 2001, respectively.

OA O LUKOIL
Notes to Consolidated Financial Statements
(Millions of US dollars, except as indicated)

Note 16. Stockholders' equity (continued)

At the annual stockholders meeting on June 28, 2001, a resolution to increase the number of shares of common stock by 77,211,864 shares of par value of 0.025 Russian rubles each was approved. These shares were exchanged for all of the outstanding preferred stock of the Company in the ratio of one share of common stock for one share of preferred stock. The results of this transaction were registered by the Russian Federal Commission for Securities on December 14, 2001.

During 2001, the Company issued 2,780,525 shares (included in the 18,431,061 shares disclosed above) to LUKOIL Finance Limited, a Group company, in exchange for its 15.7% of the shares in AGD (Note 18 "Business combinations"). These shares and the 16,568,939 shares sold to LUKinter Finance B.V. were held by these subsidiaries at December 31, 2001. The shares held by subsidiaries were not considered to be outstanding shares at December 31, 2001 in the consolidated financial statements. As of December 31, 2002, subsidiaries held 7,161,345 shares of the Company, which are not considered to be outstanding shares in the consolidated financial statements.

As noted in Note 15 "Pension benefits" the Group sold a group of companies to LUKOIL-GARANT, a related party, during 2000. The assets and liabilities of the companies sold included 45,108,103 shares of common stock of the Company (accounted for as Treasury Stock of the Group prior to the sale) and a contingent obligation to purchase a further 7,876,000 shares of common stock of the Company from the Company on November 3, 2003. The contingent obligation is in the form of a put option held by the Group. The fair value of the net assets of the companies sold by the Group including the contingent obligation, was equivalent to the amount paid by LUKOIL-GARANT for the group of companies.

Earnings per share

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

	Year ended December 31, 2002	Year ended December 31, 2001	Year ended December 31, 2000
Net income	1,843	2,109	3,312
Dividends on preferred shares	-	(157)	(47)
Net income related to common shares	1,843	1,952	3,265
Add back convertible debt interest (net of tax at effective rate)			
3.5% Convertible US dollar bonds, maturing 2002	6	17	17
1% Convertible US dollar bonds, maturing 2003	23	23	23
3.5% Convertible US dollar bonds, maturing 2007	1	-	-
Total diluted net income	1,873	1,992	3,305
Weighted average number of outstanding common shares (thousands of shares)	813,832	727,348	676,341
Add back treasury shares held in respect of convertible debt (thousands of shares)	13,942	21,675	21,675
Weighted average number of outstanding common shares, after dilution (thousands of shares)	827,774	749,023	698,016

Note 17. Financial and derivative instruments

Commodity derivative instruments

The Group's use of derivative instruments is limited to certain marketing and trading of petroleum products outside of its physical crude oil and products businesses and includes the use of futures contracts together with purchase and sale contracts that qualify as derivative instruments. The Group maintains a system of controls over these marketing and trading activities that includes policies covering the authorization, reporting and monitoring of derivative activity. The Group does not believe its derivative activities pose material credit or market risks to its operations, financial condition or liquidity. The Group recognized a net loss of \$5 million during 2002 associated with such activities and the fair value of derivative contracts outstanding and recorded on the consolidated balance sheet as of December 31, 2002 was a net payable of \$6 million. The volume of petroleum products under contracts which were physically settled during 2002 related to this activity was 593,000 tonnes. The use of derivatives during 2001 was negligible.

Fair value

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

The fair value of long-term receivables included in other non-current assets approximates the amounts disclosed in the consolidated financial statements as a result of discounting using estimated market interest rates for similar financing arrangements. The fair value of long-term debt differs from the amount disclosed in the consolidated financial statements. The estimated fair value of long-term debt as of December 31, 2002 and 2001 was \$2,249 million and \$2,081 million, respectively, as a result of discounting using estimated market interest rates for similar financing arrangements. These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion, and interest.

Note 18. Business combinations

In November 2002, the Group acquired 100% of the share capital of LUKOIL Baltija for \$27 million from a related party, which is controlled by a non-executive director of the Group. LUKOIL Baltija is a marketing and distribution company operating in the Baltic region.

In February 2002, the Group acquired an additional 16% of OAO Komineft for \$40 million, increasing the Group's ownership stake in OAO Komineft to 70%. OAO Komineft is a Russian oil and gas exploration company operating predominantly in the Komi Republic of the Russian Federation.

In May and December 2001, the Group acquired 25% and 35%, respectively, of the share capital of OAO Yamalneftegazodobycha in total for \$104 million. Prior to the December acquisition, OAO Yamalneftegazodobycha was recorded as an affiliated company using the equity method of accounting. OAO Yamalneftegazodobycha is a Russian oil and gas exploration company with significant proved undeveloped reserves predominantly within the Yamal-Nenetsky Autonomic District of Northern Russia.

In September 2001, the Group acquired 100% of the share capital of Bitech Petroleum Corporation for \$77 million. Bitech Petroleum Corporation was a Canadian oil exploration company with operations predominantly within the Komi Republic of the Russian Federation.

In March 2001, the Company exchanged 720,364 shares of common stock for 13% and 22% of the minority interest shareholding of OAO LUKOIL-Ukhtaneftepererabotka and OAO LUKOIL-Kominefteproduct, respectively. OAO LUKOIL-Ukhtaneftepererabotka is an oil refinery and OAO LUKOIL-Kominefteproduct is a marketing and distribution company. Both companies operate primarily in the Komi Republic of the Russian Federation.

Note 18. Business combinations (continued)

During 2001, the Group acquired 74.1% of the shares in AGD, through a number of transactions. In January 2001, LUKOIL Finance Limited, a Group company acquired a 15.7% interest in AGD for \$39 million. In March 2001, the Group acquired 58.4% of the shares in AGD in exchange for 14,930,172 of the Company's common stock and cash consideration of \$130 million. AGD is a Russian oil and gas exploration company operating predominantly within the Timan-Pechora region of Northern Russia.

In December 2000, the Group acquired 72% of Getty Petroleum Marketing Inc. for \$53 million. Getty Petroleum Marketing Inc. is a marketing and distribution company operating throughout the Northeast and Mid Atlantic regions of the United States of America. In January 2001, the Group acquired the remaining 28% of shares in Getty Petroleum Marketing Inc. for \$20 million thereby increasing the Group's ownership stake in Getty Petroleum Marketing Inc. to 100%.

In June 2000, the Group acquired 14% of ZAO LUKOIL-Perm in exchange for 54% of the Group's interest in OAO Vatoil thereby increasing the Group's ownership stake in ZAO LUKOIL-Perm to 64% and reducing the Group's effective interest in OAO Vatoil from 100% to 80%. Prior to this acquisition, ZAO LUKOIL-Perm was recorded as an affiliated company using the equity method of accounting. During 2001, the Group increased its ownership stake in ZAO LUKOIL-Perm to 73%. ZAO LUKOIL-Perm is an exploration and production company operating in European Russia.

Note 19. Letters of credit and financial guarantees

The Group has entered into various guarantee arrangements. These arrangements arose in transactions related to enhancing the credit standing of our affiliated companies (LUKARCO and ZAO Sever-TEK) and borrowings of the Group's suppliers.

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

	As of December 31, 2002	As of December 31, 2001
Guarantees of equity investees' debt	629	518
Guarantees of third parties' debt	38	16
Total	667	534

Guarantees on debt

LUKARCO, an investee recorded under the equity method of accounting has a loan facility on which \$835 million was drawn as of December 31, 2002. Borrowings under this loan bear interest at LIBOR plus 2.5% and are payable partly by February 7, 2007 with the remaining by May 1, 2012. To enhance the credit standing of LUKARCO, the Company guarantees 54% of the interest payment as well as the repayment of 54% of the loan at maturity. As of December 31, 2002, the total value of the Company's guarantee was \$551 million. Payments are due if the Company is notified that LUKARCO is not able to fulfill its obligations at the maturity date. No collateral secures LUKARCO's obligation or the Company's guarantee. As of December 31, 2002, it is not probable that the Company will be required to make payments under the guarantee. Thus, no liability has been accrued related to this guarantee arrangement.

Note 19. Letters of credit and financial guarantees (continued)

ZAO Sever-TEK, an investee recorded under the equity method of accounting obtained a loan from EBRD on June 28, 2002 in the amount of \$200 million. As of December 31, 2002, ZAO Sever-TEK's amount outstanding under this loan was \$152 million. Up to June 30, 2005, borrowings under this loan bear interest at LIBOR plus 3%. After June 30, 2005 borrowings under this loan bear interest at LIBOR plus 4.5%. The loan is payable in eight equal semi-annual payments starting from December 14, 2004. To enhance the credit standing of ZAO Sever-TEK, a Group company guarantees 50% of the interest payments as well as the principal amount of the loan at maturity. As of December 31, 2002, the total value of the Company's guarantee is \$78 million. Payments are due if the Group company is notified that ZAO Sever-TEK is not able to fulfill its obligations at the maturity date. No collateral secures ZAO Sever-TEK's obligation. The guarantee is secured by the shares of ZAO Sever-TEK held by the Group company, the carrying amount of which was approximately \$1 million as of December 31, 2002. As of December 31, 2002, it is not probable that the Group company will be required to make payments under the guarantee. Thus, no liability has been accrued related to this guarantee arrangement.

Note 20. Commitments and contingencies

Capital expenditure, exploration and investment programs

Under the terms of the purchase agreement, the Group is required to invest \$268 million in the Neftochim Burgas AD refinery prior to 2005. As of December 31, 2002 the Group's commitments under this agreement were \$112 million.

Under the terms of the purchase agreement, as amended, the Group is required to invest \$200 million in the Petrotel SA refinery prior to 2008. As of December 31, 2002 the Group's commitments under this agreement were \$107 million.

Group companies have commitments under the terms of existing license agreements in the Russian Federation of \$2,755 million over the next 5 years and of \$282 million thereafter.

Group companies have commitments for capital expenditure contributions in the amount of \$138 million related to various PSAs over the next 35 years.

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

Operating lease obligations

A Group company has commitments of \$850 million for the lease of petroleum distribution outlets over the next 13 years. Commitments for minimum rentals under these leases as of December 31, 2002 are as follows:

	As of December 31, 2002
2003	74
2004	73
2005	72
2006	73
2007	62
beyond	496

Note 20. Commitments and contingencies (continued)

Insurance

The insurance industry in the Russian Federation and certain other areas where the Group has operations is in the course of development. Many forms of insurance protection common in other parts of the world are not yet generally available. Management believes that the Group has adequate property damage coverage for the majority of its plant facilities including a refinery insurance program and hull and machinery insurance for the Group's operating marine vessels. In respect of third party liability for property and environmental damage arising from accidents on Group property or relating to Group operations, there is liability insurance in compliance with the local legal requirements, however the insurance limits required by law are generally low. The Group does not have insurance coverage for business interruption. Until Group companies are able to obtain adequate insurance coverage, there remains a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Environmental liabilities

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

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

Social assets

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

Taxation environment

The taxation systems in the Russian Federation and other emerging markets where Group companies operate are relatively new and are characterized by numerous taxes and 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.

During 2002, the Group agreed to settle claims made by the taxing authorities in respect of income and other taxes amounting to \$103 million. The Group agreed to settle these claims with out prejudice.

Note 20. Commitments and 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.

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.

Other matters

During July 2001, the Group temporarily shut down operations of the Petrotel SA 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 SA 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 as described in this note under *Capital expenditure, exploration and investment programs*.

Note 21. Related party transactions

In the rapidly developing business environment in the Russian Federation, companies and individuals have frequently used nominees and other forms of intermediary companies in transactions. The senior management of the Company 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.

Note 21. Related party transactions (continued)

Sales of oil and oil products to related parties were \$148 million, \$98 million and \$44 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Other sales to related parties were \$74 million, \$46 million and \$34 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Purchases of oil and oil products from related parties were \$449 million, \$305 million and \$441 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Purchases of construction services from related parties were \$206 million, \$389 million and \$355 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Other purchases from related parties were \$64 million, \$128 million and \$181 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Purchases of insurance services from related parties were \$161 million and \$214 million during the years ended December 31, 2002 and 2001, respectively. During 2000, these services were provided by Group companies. These companies were part of the group of companies sold to LUKOIL-GARANT during 2000 (Note 15 "Pension benefits").

Amounts receivable from related parties, including loans and advances, were \$267 million and \$209 million as of December 31, 2002 and 2001, respectively. Amounts payable to related parties were \$99 million and \$73 million as of December 31, 2002 and 2001, respectively.

As of December 31, 2002 and 2001 the Government of the Russian Federation owned 8% and 14% of the shares of the common stock of the Company, respectively. 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 22. Segment information

Presented below is information about the Group's operating and geographical segments for the years ended December 31, 2002, 2001 and 2000 in accordance with SFAS No. 131, "*Disclosures about Segments of an Enterprise and Related Information.*"

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

For the years ended December 31, 2002, 2001 and 2000 the Group had one customer who accounted for 6.1%, 14.6% and 18.2% of total sales, respectively.

OA O LUKOIL
Notes to Consolidated Financial Statements
(Millions of US dollars, except as indicated)

Note 22. Segment information (continued)

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

Operating segments

2002	Exploration and production	Refining, marketing and distribution	Other	Elimination	Consolidated
Sales					
Third parties	1,264	14,034	36	-	15,334
Inter-segment	3,897	188	186	(4,271)	-
Total sales	5,161	14,222	222	(4,271)	15,334
Operating expenses and total cost of purchases					
	1,916	7,305	146	(4,271)	5,096
Depletion, depreciation and amortization					
	602	219	3	-	824
Interest expense					
	157	154	43	(132)	222
Income taxes					
	256	469	14	-	739
Net income					
	220	1,721	51	(149)	1,843
Total assets					
	13,005	12,107	1,319	(4,430)	22,001
Capital expenditures					
	1,411	715	78	-	2,204
2001	Exploration and production	Refining, marketing and distribution	Other	Elimination	Consolidated
Sales					
Third parties	1,225	12,144	57	-	13,426
Inter-segment	4,153	347	136	(4,636)	-
Total sales	5,378	12,491	193	(4,636)	13,426
Operating expenses and total cost of purchases					
	2,031	7,149	130	(4,639)	4,671
Depletion, depreciation and amortization					
	606	278	2	-	886
Interest expense					
	74	190	27	(34)	257
Income taxes					
	52	605	17	-	674
Net income					
	911	1,175	11	12	2,109
Total assets					
	12,024	10,101	843	(3,026)	19,942
Capital expenditures					
	1,789	810	18	-	2,617

OA O LUKOIL
Notes to Consolidated Financial Statements
(Millions of US dollars, except as indicated)

Note 22. Segment information (continued)

2000	Exploration and production	Refining, marketing and distribution	Other	Elimination	Consolidated
Sales					
Third parties	834	12,211	165	-	13,210
Inter-segment	2,919	681	70	(3,670)	-
Total sales	3,753	12,892	235	(3,670)	13,210
Operating expenses and total cost of purchases					
	1,283	6,405	154	(3,617)	4,225
Depletion, depreciation and amortization					
	611	221	6	-	838
Interest expense					
	37	169	32	(40)	198
Income taxes					
	154	605	13	-	772
Net income					
	794	2,727	(96)	(113)	3,312
Total assets					
	9,359	8,956	492	(1,698)	17,109
Capital expenditures					
	945	909	30	(17)	1,867

Geographical segments

	2002	2001	2000
Sales of crude oil within Russia	469	992	1,471
Export of crude oil and sales of crude oil by foreign subsidiaries	4,336	3,951	4,380
Sales of petroleum products within Russia	2,883	2,595	2,287
Export of petroleum products and sales of petroleum products by foreign subsidiaries	6,225	4,690	4,076
Sales of chemicals within Russia	134	159	224
Export of chemicals and sales of chemicals by foreign subsidiaries	392	334	97
Other sales within Russia	554	435	598
Other export sales and other sales of foreign subsidiaries	341	270	77
Total sales	15,334	13,426	13,210

2002	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	365	4,331	10,638	-	15,334
Inter-segment	2,078	6,350	67	(8,495)	-
Total sales	2,443	10,681	10,705	(8,495)	15,334
Operating expenses and total cost of purchases					
	979	3,967	8,644	(8,494)	5,096
Depletion, depreciation and amortization					
	335	367	122	-	824
Interest expense					
	28	162	42	(10)	222
Income taxes					
	177	571	(9)	-	739
Net income					
	(133)	1,802	310	(136)	1,843
Total assets					
	5,565	13,079	5,354	(1,997)	22,001
Capital expenditures					
	399	1,362	443	-	2,204

OA O LUKOIL
Notes to Consolidated Financial Statements
(Millions of US dollars, except as indicated)

Note 22. Segment information (continued)

2001	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	379	4,389	8,658	-	13,426
Inter-segment	2,329	5,204	73	(7,606)	-
Total sales	2,708	9,593	8,731	(7,606)	13,426
Operating expenses and total cost of purchases					
	1,220	3,450	7,610	(7,609)	4,671
Depletion, depreciation and amortization					
	325	404	157	-	886
Interest expense					
	19	168	73	(3)	257
Income taxes					
	(66)	714	26	-	674
Net income					
	477	1,482	141	9	2,109
Total assets					
	5,400	11,883	3,991	(1,332)	19,942
Capital expenditures					
	667	1,579	371	-	2,617
2000	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	176	4,628	8,406	-	13,210
Inter-segment	1,831	4,754	68	(6,653)	-
Total sales	2,007	9,382	8,474	(6,653)	13,210
Operating expenses and total cost of purchases					
	842	2,598	7,385	(6,600)	4,225
Depletion, depreciation and amortization					
	332	390	116	-	838
Interest expense					
	1	129	96	(28)	198
Income taxes					
	71	677	24	-	772
Net income					
	232	3,151	48	(119)	3,312
Total assets					
	4,737	10,434	3,212	(1,274)	17,109
Capital expenditures					
	377	1,172	335	(17)	1,867

Note 23. Subsequent events

Business combinations

In 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.

In April 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.

Subsequent to December 31, 2002, the Group has sold its 10% interest in a PSA operated by the Azerbaijan International Operating Company as described in Note 10 "Assets held for sale."

OA O LUKOIL**Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)
(Millions of US dollars, except as indicated)**

This section provides unaudited supplemental information on oil and gas exploration and production activities in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 69, “*Disclosures About Oil and Gas Producing Activities*” in six separate tables:

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

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

I. Capitalized costs relating to oil and gas producing activities

As of December 31, 2002	International	Russia	Total consolidated companies	Group’s share in equity companies	Total
Unproved oil and gas properties	-	310	310	41	351
Proved oil and gas properties	1,103	20,657	21,760	625	22,385
Accumulated depreciation, depletion, and amortization	(155)	(12,097)	(12,252)	(194)	(12,446)
Net capitalized costs	948	8,870	9,818	472	10,290

As of December 31, 2001	International	Russia	Total consolidated companies	Group’s share in equity companies	Total
Unproved oil and gas properties	-	354	354	31	385
Proved oil and gas properties	868	19,855	20,723	426	21,149
Accumulated depreciation, depletion, and amortization	(141)	(11,868)	(12,009)	(131)	(12,140)
Net capitalized costs	727	8,341	9,068	326	9,394

As of December 31, 2000	International	Russia	Total consolidated companies	Group’s share in equity companies	Total
Unproved oil and gas properties	-	246	246	41	287
Proved oil and gas properties	657	17,020	17,677	410	18,087
Accumulated depreciation, depletion, and amortization	(104)	(11,127)	(11,231)	(183)	(11,414)
Net capitalized costs	553	6,139	6,692	268	6,960

OAO LUKOIL**Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)**
(Millions of US dollars, except as indicated)*II. Costs incurred in oil and gas property acquisition, exploration, and development activities*

Year ended December 31, 2002	International	Russia	Total consolidated companies	Group's share in equity companies	Total
Acquisition of properties - proved	-	24	24	-	24
Acquisition of properties - unproved	-	11	11	-	11
Exploration costs	15	74	89	3	92
Development costs	322	1,000	1,322	158	1,480
Total costs incurred	337	1,109	1,446	161	1,607

Year ended December 31, 2001	International	Russia	Total consolidated companies	Group's share in equity companies	Total
Acquisition of properties - proved	-	445	445	22	467
Acquisition of properties - unproved	-	310	310	7	317
Exploration costs	-	144	144	6	150
Development costs	246	1,399	1,645	79	1,724
Total costs incurred	246	2,298	2,544	114	2,658

Year ended December 31, 2000	International	Russia	Total consolidated companies	Group's share in equity companies	Total
Acquisition of properties - proved	-	631	631	-	631
Acquisition of properties - unproved	-	32	32	-	32
Exploration costs	18	112	130	3	133
Development costs	279	536	815	66	881
Total costs incurred	297	1,311	1,608	69	1,677

OA O LUKOIL**Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)**
(Millions of US dollars, except as indicated)**III. Results of operations for oil and gas producing activities**

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

Year ended December 31, 2002	International	Russia	Total consolidated companies	Group's share in equity companies	Total
Revenue					
Sales	176	5,026	5,202	222	5,424
Transfers	5	2,847	2,852	124	2,976
	181	7,873	8,054	346	8,400
Production costs (excluding production taxes)	28	1,327	1,355	69	1,424
Exploration expense	15	74	89	3	92
Depreciation, depletion, and amortization	27	575	602	37	639
Taxes other than income taxes	-	2,196	2,196	56	2,252
Related income taxes	27	888	915	77	992
Total results of operations for producing activities	84	2,813	2,897	104	3,001

Year ended December 31, 2001	International	Russia	Total consolidated companies	Group's share in equity companies	Total
Revenue					
Sales	142	4,753	4,895	125	5,020
Transfers	-	3,019	3,019	104	3,123
	142	7,772	7,914	229	8,143
Production costs (excluding production taxes)	11	1,400	1,411	59	1,470
Exploration expense	-	144	144	6	150
Depreciation, depletion, and amortization	49	557	606	17	623
Taxes other than income taxes	-	1,751	1,751	29	1,780
Related income taxes	22	1,333	1,355	39	1,394
Total results of operations for producing activities	60	2,587	2,647	79	2,726

Year ended December 31, 2000	International	Russia	Total consolidated companies	Group's share in equity companies	Total
Revenue					
Sales	284	6,093	6,377	86	6,463
Transfers	-	2,429	2,429	117	2,546
	284	8,522	8,806	203	9,009
Production costs (excluding production taxes)	30	1,003	1,033	41	1,074
Exploration expense	18	112	130	3	133
Depreciation, depletion, and amortization	48	563	611	14	625
Taxes other than income taxes	2	674	676	27	703
Related income taxes	47	1,851	1,898	38	1,936
Total results of operations for producing activities	139	4,319	4,458	80	4,538

IV. Reserve quantity information

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

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

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

Estimated net proved oil and gas reserves and changes thereto for the years 2002, 2001 and 2000 are shown in the table set out below.

OA O LUKOIL
Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)
(Millions of US dollars, except as indicated)

Millions of barrels	Consolidated subsidiaries			Group's share in equity companies	Total
	International	Russia	Total		
Crude oil					
January 1, 2000	369	11,461	11,830	961	12,791
Revisions of previous estimates	(23)	(278)	(301)	(27)	(328)
Purchase of hydrocarbons in place*	-	1,123	1,123	(458)	665
Extensions and discoveries	26	294	320	-	320
Production	(8)	(502)	(510)	(23)	(533)
Sales of reserves	-	(20)	(20)	-	(20)
December 31, 2000	364	12,078	12,442	453	12,895
Revisions of previous estimates	1	(66)	(65)	16	(49)
Purchase of hydrocarbons in place	-	1,650	1,650	44	1,694
Extensions and discoveries	3	570	573	41	614
Production	(8)	(507)	(515)	(27)	(542)
December 31, 2001	360	13,725	14,085	527	14,612
Revisions of previous estimates	(24)	835	811	62	873
Purchase of hydrocarbons in place	1	35	36	-	36
Extensions and discoveries	-	307	307	1	308
Production	(10)	(512)	(522)	(42)	(564)
Sales of reserves	-	(4)	(4)	(3)	(7)
December 31, 2002	327	14,386	14,713	545	15,258
Proved developed reserves					
December 31, 2000	104	8,274	8,378	276	8,654
December 31, 2001	87	8,689	8,776	418	9,194
December 31, 2002	107	9,041	9,148	359	9,507

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

The minority interest share included in the above total proved reserves was 1,089 million barrels, 951 million barrels and 551 million barrels as of December 31, 2002, 2001 and 2000, respectively. The minority interest share included in the above proved developed reserves was 411 million barrels, 343 million barrels and 340 million barrels as of December 31, 2002, 2001 and 2000, respectively. All minority interests relate to the reserves in the Russian Federation. In 2003, the Group acquired the minority interest in ZAO LUKOIL-Perm which represented 423 million barrels of the minority interest share of total proved reserves and 279 million barrels of the minority interest share of proved developed reserves as of December 31, 2002.

OA O LUKOIL
Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)
(Millions of US dollars, except as indicated)

Billions of cubic feet	Consolidated subsidiaries			Group's share in equity companies	Total
	International	Russia	Total		
Natural gas					
January 1, 2000	1,797	2,035	3,832	87	3,919
Revisions of previous estimates	-	(562)	(562)	193	(369)
Purchase of hydrocarbons in place*	-	265	265	(115)	150
Extensions and discoveries	-	47	47	-	47
Production	(34)	(78)	(112)	(7)	(119)
Sales of reserves	-	(3)	(3)	-	(3)
December 31, 2000	1,763	1,704	3,467	158	3,625
Revisions of previous estimates	(75)	315	240	31	271
Purchase of hydrocarbons in place	-	8,299	8,299	78	8,377
Extensions and discoveries	-	1,028	1,028	25	1,053
Production	(20)	(85)	(105)	(11)	(116)
December 31, 2001	1,668	11,261	12,929	281	13,210
Revisions of previous estimates	(44)	809	765	(53)	712
Purchase of hydrocarbons in place	-	4,967	4,967	-	4,967
Extensions and discoveries	-	5,401	5,401	-	5,401
Production	(43)	(76)	(119)	(7)	(126)
December 31, 2002	1,581	22,362	23,943	221	24,164
Proved developed reserves:					
December 31, 2000	554	1,231	1,785	95	1,880
December 31, 2001	570	1,503	2,073	179	2,252
December 31, 2002	574	1,656	2,230	110	2,340

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

The minority interest share included in the above total proved reserves was 5,621 billion cubic feet, 3,355 billion cubic feet and 104 billion cubic feet as of December 31, 2002, 2001 and 2000, respectively. The minority interest share included in the above proved developed reserves was 64 billion cubic feet, 56 billion cubic feet and 90 billion cubic feet as of December 31, 2002, 2001 and 2000, respectively. All minority interests relate to the reserves in the Russian Federation. In 2003, the Group acquired the minority interest in ZAO LUKOIL-Perm which represented 91 billion cubic feet of the minority interest share of total proved reserves and 64 billion cubic feet of the minority interest share of proved developed reserves as of December 31, 2002.

OAO LUKOIL
Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)
(Millions of US dollars, except as indicated)
V. Standardized measure of discounted future net cash flows

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

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

	International	Russia	Total consolidated companies	Group's share in equity companies	Total
As of December 31, 2002					
Future cash inflows	5,975	205,622	211,597	7,571	219,168
Future production and development costs	(2,117)	(123,967)	(126,084)	(3,686)	(129,770)
Future income tax expenses	(796)	(18,857)	(19,653)	(855)	(20,508)
Future net cash flows	3,062	62,798	65,860	3,030	68,890
Discount for estimated timing of cash flows (10% p.a.)	(1,674)	(42,104)	(43,778)	(1,665)	(45,443)
Discounted future net cash flows	1,388	20,694	22,082	1,365	23,447
Minority share in discounted future net cash flows	-	1,842	1,842	-	1,842

	International	Russia	Total consolidated companies	Group's share in equity companies	Total
As of December 31, 2001					
Future cash inflows	5,410	163,720	169,130	5,816	174,946
Future production and development costs	(2,180)	(97,755)	(99,935)	(2,766)	(102,701)
Future income tax expenses	(766)	(14,909)	(15,675)	(652)	(16,327)
Future net cash flows	2,464	51,056	53,520	2,398	55,918
Discount for estimated timing of cash flows (10% p.a.)	(1,743)	(34,337)	(36,080)	(1,353)	(37,433)
Discounted future net cash flows	721	16,719	17,440	1,045	18,485
Minority share in discounted future net cash flows	-	1,362	1,362	-	1,362

OAO LUKOIL
Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)
(Millions of US dollars, except as indicated)

	International	Russia	Total consolidated companies	Group's share in equity companies	Total
As of December 31, 2000					
Future cash inflows	6,378	170,534	176,912	6,707	183,619
Future production and development costs	(2,276)	(90,698)	(92,974)	(2,890)	(95,864)
Future income tax expenses	(1,156)	(27,020)	(28,176)	(1,130)	(29,306)
Future net cash flows	2,946	52,816	55,762	2,687	58,449
Discount for estimated timing of cash flows (10% p.a.)	(2,064)	(33,463)	(35,527)	(1,452)	(36,979)
Discounted future net cash flows	882	19,353	20,235	1,235	21,470
Minority share in discounted future net cash flows	-	921	921	-	921

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

Consolidated companies	2002	2001	2000
Discounted present value as at January 1	17,440	20,235	21,754
Purchase of oil and gas reserves	448	4,169	2,788
Sales and transfers of oil and gas produced, net of production costs	(4,414)	(4,608)	(6,967)
Net changes in prices and production costs estimates	4,687	(12,686)	608
Extensions, discoveries, and improved recovery, less related costs	521	1,045	797
Development costs incurred during the period	1,680	1,011	458
Revisions of previous quantity estimates	1,781	(295)	(952)
Net change in income taxes	(2,052)	5,334	(1,403)
Other changes	(334)	160	122
Accretion of discount	2,325	3,075	3,030
Discounted present value at December 31	22,082	17,440	20,235
Group's share in equity companies			
Discounted present value as at January 1	1,045	1,235	2,070
Purchase of oil and gas reserves	(2)	194	(1,162)
Sales and transfers of oil and gas produced, net of production costs	(218)	(135)	(132)
Net changes in prices and production costs estimates	290	(518)	14
Extensions, discoveries, and improved recovery, less related costs	-	101	-
Development costs incurred during the period	69	44	54
Revisions of previous quantity estimates	162	54	(77)
Net change in income taxes	(121)	203	(99)
Other changes	15	(153)	404
Accretion of discount	125	20	163
Discounted present value at December 31	1,365	1,045	1,235

OAo LUKOIL
Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)
(Millions of US dollars, except as indicated)

Total	2002	2001	2000
Discounted present value as at January 1	18,485	21,470	23,824
Purchase of oil and gas reserves	446	4,363	1,626
Sales and transfers of oil and gas produced, net of production costs	(4,632)	(4,743)	(7,099)
Net changes in prices and production costs estimates	4,977	(13,204)	622
Extensions, discoveries, and improved recovery, less related costs	521	1,146	797
Development costs incurred during the period	1,749	1,055	512
Revisions of previous quantity estimates	1,943	(241)	(1,029)
Net change in income taxes	(2,173)	5,537	(1,502)
Other changes	(319)	7	526
Accretion of discount	2,450	3,095	3,193
Discounted present value at December 31	23,447	18,485	21,470