



OAO LUKOIL

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(prepared in accordance with US GAAP)

As of and for the three and six month periods ended June 30, 2003

(unaudited)

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

Independent Accountants' Review Report

The Board of Directors of OAO LUKOIL:

We have reviewed the accompanying consolidated balance sheet of OAO LUKOIL and its subsidiaries as of June 30, 2003, the related consolidated statements of income for the three-month and six-month periods ended June 30, 2003 and 2002 and the related consolidated statements of cash flows for the six-month periods ended June 30, 2003 and 2002. These consolidated financial statements are the responsibility of the management of OAO LUKOIL.

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

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

KPMG Limited

KPMG Limited
Moscow, Russian Federation
September 24, 2003

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

	Note	As of June 30, 2003 (unaudited)	As of December 31, 2002
Assets			
Current assets			
Cash and cash equivalents	5	1,572	1,252
Short-term investments		539	278
Accounts and notes receivable, net	6	3,372	2,511
Inventories		1,076	1,063
Prepaid taxes and other expenses		946	736
Other current assets		483	356
Assets held for sale	7	-	279
Total current assets		7,988	6,475
Investments		629	934
Property, plant and equipment		15,201	13,499
Deferred income tax assets		293	206
Goodwill and intangible assets		427	399
Other non-current assets		663	488
Total assets		25,201	22,001
Liabilities and Stockholders' equity			
Current liabilities			
Accounts payable		1,469	1,293
Short-term borrowings and current portion of long-term debt	8	2,149	1,772
Customer deposits placed in banking subsidiaries		845	755
Taxes payable		876	640
Other current liabilities		963	337
Total current liabilities		6,302	4,797
Long-term debt	9	1,480	1,666
Deferred income tax liabilities		490	261
Asset retirement obligation	2	219	-
Other long-term liabilities		340	397
Minority interest in subsidiary companies		490	880
Total liabilities		9,321	8,001
Stockholders' equity			
Common stock	11	15	15
Treasury stock, at cost		(432)	(428)
Additional paid-in capital		3,266	3,229
Retained earnings		13,034	11,186
Accumulated other comprehensive loss		(3)	(2)
Total stockholders' equity		15,880	14,000
Total liabilities and stockholders' equity		25,201	22,001



Vice-President of OAO LUKOIL
Kozyrev A.G.



Deputy Chief accountant of OAO LUKOIL
Kozyrev I.A.

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

	Note	For the three months ended June 30, 2003 (unaudited)	For the three months ended June 30, 2002 (unaudited)	For the six months ended June 30, 2003 (unaudited)	For the six months ended June 30, 2002 (unaudited)
Revenues					
Sales (including excise and export tariffs)	15	5,086	3,794	10,142	6,641
Equity share in income of affiliates		49	15	91	35
Total revenues		5,135	3,809	10,233	6,676
Costs and other deductions					
Operating expenses		(693)	(586)	(1,361)	(1,243)
Cost of purchased crude oil, petroleum and chemical products		(1,386)	(512)	(2,665)	(908)
Transportation expenses		(503)	(337)	(939)	(605)
Selling, general and administrative expenses		(429)	(304)	(758)	(611)
Depreciation, depletion and amortization		(226)	(241)	(455)	(478)
Taxes other than income taxes		(530)	(431)	(1,140)	(808)
Excise and export tariffs		(788)	(573)	(1,329)	(785)
Exploration expenses		(28)	(30)	(54)	(50)
Gain from sale of interest in Azeri Chirag Guneshli	7	1,130	-	1,130	-
Loss on disposals and impairments of assets		(28)	(4)	(68)	(26)
Income from operating activities		1,654	791	2,594	1,162
Interest expense		(78)	(59)	(140)	(126)
Interest and dividend income		47	36	63	68
Currency translation gain (loss)		51	18	84	(16)
Other non-operating income		28	49	64	70
Minority interest		(12)	(25)	(19)	(31)
Income before income taxes		1,690	810	2,646	1,127
Current income taxes		(130)	(248)	(400)	(356)
Deferred income taxes		(16)	35	(14)	69
Total income tax expense	4	(146)	(213)	(414)	(287)
Income before cumulative effect of change in accounting principle		1,544	597	2,232	840
Cumulative effect of change in accounting principle, net of tax	2	-	-	132	-
Net income		1,544	597	2,364	840
Per share of common stock (US dollars):					
Income before cumulative effect of change in accounting principle					
Basic		1.89	0.73	2.73	1.04
Diluted		1.85	0.73	2.68	1.04
Net Income					
Basic		1.89	0.73	2.89	1.04
Diluted		1.85	0.73	2.84	1.04

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

OA O LUKOIL
Consolidated Statements of Cash Flows
(Millions of US dollars)

	For the six months ended June 30, 2003 (unaudited)	For the six months ended June 30, 2002 (unaudited)
Cash flows from operating activities		
Net income	2,364	840
Adjustments for non-cash items:		
Cumulative effect of change in accounting principle, net of tax	(132)	-
Depreciation, depletion and amortization	455	478
Equity share in income of affiliates	(91)	(35)
(Gain) loss on disposals and impairments of assets	(1,062)	26
Deferred income taxes	14	(69)
Non-cash currency translation loss (gain)	42	(11)
Non-cash investing activities	(52)	(32)
All other items – net	51	(16)
Changes in operating assets and liabilities:		
Accounts and notes receivable	(535)	(163)
Short-term loans receivable of banking subsidiaries	(86)	48
Net movements of customers deposits placed in banking subsidiaries	64	(49)
Inventories	(3)	(54)
Accounts payable	119	(379)
Taxes payable	224	138
Other current assets and liabilities	(347)	141
Net cash provided by operating activities	1,025	863
Cash flows from investing activities		
Capital expenditures	(1,297)	(860)
Proceeds from sale of property, plant and equipment	37	8
Proceeds from sale of interest in Azeri Chirag Guneshli	1,337	-
Purchases of investments	(379)	(177)
Proceeds from sale of investments	245	63
Acquisitions (net of cash acquired) and additional interests purchased	(765)	(115)
Net cash used in investing activities	(822)	(1,081)
Cash flows from financing activities		
Net movements of short-term borrowings	244	128
Proceeds from issuance of long-term debt	386	372
Principal payments of long-term debt	(507)	(213)
Dividends paid	(8)	(107)
Proceeds from issuance of common stock	-	18
Purchase of treasury stock	(86)	(218)
Proceeds from sale of treasury stock	78	226
Other – net	(9)	73
Net cash provided by financing activities	98	279
Effect of exchange rate changes on cash and cash equivalents	19	(17)
Net increase in cash and cash equivalents	320	44
Cash and cash equivalents at beginning of the period	1,252	1,170
Cash and cash equivalents at end of the period	1,572	1,214
Supplemental disclosures of cash flow information		
Interest paid	140	122
Income tax paid	468	268

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

Note 1. Basis of Financial Statement presentation

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

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

The results for the three-month and six-month periods ended June 30, 2003 are not necessarily indicative of future financial results.

Foreign currency translation

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

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

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

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

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

As of June 30, 2003 and December 31, 2002, exchange rates of 30.35 and 31.78 Russian rubles to the US dollar, respectively, have been used for translation purposes.

The Russian ruble and other currencies of republics of the former Soviet Union are not convertible outside of their countries. Accordingly, the translation of amounts recorded in these currencies into US dollars should not be construed as a representation that such currency amounts have been, could be or will in the future be converted into US dollars at the exchange rate shown or at any other exchange rate.

OAOLUKOIL

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

Note 2. Cumulative effect of change in accounting principle

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

If SFAS No. 143 had been in effect in 2002, net income that would have been reported would not have been materially different from the result that was reported under SFAS No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies." Other than the cumulative effect adjustment, the effect of SFAS No. 143 on net income for the three and six months ended June 30, 2003 was also not material. Changes in the asset retirement obligation during the three and six months ended June 30, 2003 primarily related to new liabilities, accretion and changes in foreign exchange. As of June 30, 2003 the total assets retirement obligation was \$229 million, of which \$10 million was included in other current liabilities. In the second quarter of 2003, other long-term liabilities of \$59 million relating to retirement of long-lived assets were reclassified to "Asset retirement obligation."

The following table shows what the Group's net income and net income per share would have been for the three and six months ended June 30, 2002 if the provisions of SFAS No. 143 had been applied in those periods, compared with net income and net income per share recorded during the three and six months ended June 30, 2003.

	For the three months ended June 30, 2003	For the three months ended June 30, 2002	For the six months ended June 30, 2003	For the six months ended June 30, 2002
Net income				
Reported net income	1,544	597	2,364	840
Cumulative effect of adoption of SFAS No. 143, net of tax	-	-	(132)	-
SFAS No. 19 depletion for abandonment and restoration, net of tax	-	10	-	20
Pro-forma SFAS No. 143 accretion and depletion expenses, net of tax	-	(6)	-	(12)
Adjusted net income	1,544	601	2,232	848
Per share of common stock (US dollars):				
Reported net income	1.89	0.73	2.89	1.04
Cumulative effect of adoption of SFAS No. 143, net of tax	-	-	(0.16)	-
SFAS No. 19 depletion for abandonment and restoration, net of tax	-	0.01	-	0.02
Pro-forma SFAS No. 143 accretion and depletion expenses, net of tax	-	(0.01)	-	(0.01)
Adjusted net income - basic	1.89	0.73	2.73	1.05
Reported net income	1.85	0.73	2.84	1.04
Cumulative effect of adoption of SFAS No. 143, net of tax	-	-	(0.16)	-
SFAS No. 19 depletion for abandonment and restoration, net of tax	-	0.01	-	0.02
Pro-forma SFAS No. 143 accretion and depletion expenses, net of tax	-	(0.01)	-	(0.01)
Adjusted net income - diluted	1.85	0.73	2.68	1.05

Note 3. Recent accounting pronouncements

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

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

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

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

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

Note 4. Income taxes

The combined statutory income tax rate in the Russian Federation during the periods ended June 30, 2003 and 2002 was 24%. The Group’s effective tax rate for the period ended June 30, 2003 was significantly reduced as compared to the period ended June 30, 2002. This was a result of the recognition of a non-taxable gain of \$1,130 million on the sale of the Group’s interest in a production sharing agreement (“PSA”) operated by the Azerbaijan International Operating Company (Note 7 “Sale of property”).

Note 5. Cash and cash equivalents

	As of June 30, 2003	As of December 31, 2002
Cash held in Russian rubles	190	171
Cash held in other currencies	786	645
Cash held in banking subsidiaries in Russian rubles	218	262
Cash held in banking subsidiaries in other currencies	378	174
Total cash and cash equivalents	1,572	1,252

Note 6. Accounts and notes receivable, net

	As of June 30, 2003	As of December 31, 2002
Trade accounts and notes receivable (net of provisions of \$84 million and \$57 million as of June 30, 2003 and December 31, 2002, respectively)	1,756	1,354
Current VAT and excise recoverable	979	645
Short-term loans receivable of banking subsidiaries (net of provisions of \$18 million and \$15 million as of June 30, 2003 and December 31, 2002, respectively)	354	266
Other current accounts receivable (net of provisions of \$40 million and \$28 million as of June 30, 2003 and December 31, 2002, respectively)	283	246
Total accounts and notes receivable, net	3,372	2,511

Note 7. Sale of property

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 the 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. The sale was completed on April 28, 2003 for net \$1,337 million cash, resulting in the recognition of a net gain of \$1,130 million during the three months ended June 30, 2003. This gain is included in the "Exploration and production" operating segment and "International" geographical segment in Note 15 "Segment information."

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

	As of June 30, 2003	As of December 31, 2002
Short-term borrowings	1,031	740
Current portion of long-term debt	1,118	1,032
Total short-term borrowings and current portion of long-term debt	2,149	1,772

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

Note 9. Long-term debt

	As of June 30, 2003	As of December 31, 2002
Long-term loans and borrowings from third parties	1,598	1,702
Long-term loans and borrowings from related parties	-	1
1% Convertible US dollar bonds, maturing 2003	431	455
3.5% Convertible US dollar bonds, maturing 2007	358	351
Variable interest unsecured Russian ruble bonds, maturing 2003	99	94
Capital lease obligation	112	95
Total long-term debt	2,598	2,698
Current portion of long-term debt	(1,118)	(1,032)
Total non-current portion of long-term debt	1,480	1,666

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.

Note 9. Long-term debt (continued)

Convertible US dollar bonds

On November 3, 1997, a Group company issued 350,000 high yield and premium exchangeable redeemable bonds with a face value of \$1,000 each, maturing on November 3, 2003, and exchangeable for 5.625 global depository receipts ("GDRs") of the Company per bond. The bonds are convertible into GDRs up to the maturity dates. The GDRs are exchangeable into four shares of common stock of the Company. Bonds not converted by the maturity date must be redeemed for cash. The redemption price at maturity will be 153.314% of the face value in respect of these bonds. A Group company may redeem the bonds for cash prior to maturity, subject to certain restrictions and early redemption charges. The carrying amount of the bonds is being accreted to their redemption value with the accreted amount being charged to the consolidated statement of income.

As of June 30, 2003, a Group company had repurchased 61,461 bonds on the open market. Subsequently, in August 2003, bondholders converted 222,225 bonds into 5 million shares of common stock of the Company.

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 were unsecured and bore interest at 6% per annum adjusted for Russian ruble to dollar devaluation.

The Company fully redeemed these bonds for cash in July 2003.

Note 10. Comprehensive income

	For the three months ended June 30, 2003	For the three months ended June 30, 2002	For the six months ended June 30, 2003	For the six months ended June 30, 2002
Net income	1,544	597	2,364	840
Other comprehensive loss:				
Foreign currency translation adjustment	-	(1)	(1)	(3)
Comprehensive income	1,544	596	2,363	837

Note 11. Stockholders' equity

Common stock

	As of June 30, 2003 (millions of shares)	As of December 31, 2002 (millions of shares)
Authorized and issued common stock, par value of 0.025 Russian rubles each	850	850
Common stock held by subsidiaries not considered as outstanding	(5)	(7)
Treasury stock	(27)	(27)
Outstanding common stock	818	816

Earnings per share

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

	For the three months ended June 30, 2003	For the three months ended June 30, 2002	For the six months ended June 30, 2003	For the six months ended June 30, 2002
Income before cumulative effect of change in accounting principle	1,544	597	2,232	840
Cumulative effect of change in accounting principle	-	-	132	-
Net income related to common shares	1,544	597	2,364	840
Add back convertible debt interest (net of tax at effective rate)				
3.5% Convertible US dollar bonds, maturing 2002	-	2	-	6
1% Convertible US dollar bonds, maturing 2003	5	6	10	12
3.5% Convertible US dollar bonds, maturing 2007	7	-	13	-
Total diluted income before cumulative effect of change in accounting principle	1,556	605	2,255	858
Total diluted net income	1,556	605	2,387	858
Weighted average number of outstanding common shares (thousands of shares)	818,139	815,107	817,049	809,993
Add back treasury shares held in respect of convertible debt (thousands of shares)	23,356	13,183	23,569	17,405
Weighted average number of outstanding common shares, after dilution (thousands of shares)	841,495	828,290	840,618	827,398

Dividends

At the annual stockholders' meeting on June 26, 2003, dividends were declared for 2002 in the amount of 19.50 Russian rubles per common share, which at the date of the meeting was equivalent to \$0.64.

Note 12. Letters of credit and financial guarantees

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

	As of June 30, 2003	As of December 31, 2002
Guarantees of equity investees' debt	662	629
Guarantees of third parties' debt	73	38
Total	735	667

Note 12. Letters of credit and financial guarantees (continued)

Guarantees issued in regard to equity investees relate to their borrowings obtained to finance capital projects and for general corporate purposes. The Group entered into these guarantees to enhance the credit standing of affiliated companies (LUKARCO and ZAO Sever-TEK). Under the terms of the guarantees the Group would be required to perform should an affiliate be in default of its loan terms, generally for the full amount as disclosed in the table above. There are no provisions for recourse to third parties and no assets are held as collateral for the obligations of affiliates. One of the guarantees is secured by the shares of an affiliated company held by the Group, the carrying amount of which was approximately nil and \$1 million as of June 30, 2003 and December 31, 2002, respectively. No collateral secures other guarantees. There are no amounts being carried as liabilities for the Group's obligations under these guarantees.

Note 13. Business combinations

In June 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 June 2003, the Group acquired 39.4% of the outstanding shares in OAO Tebukneft and 55.4% of outstanding shares in OAO Ukhtaneft, thereby increasing the Group's ownership stake in these companies to 85% and 85.5%, respectively. The Group also acquired 77.4% of outstanding shares in ZAO RKM-Oil. The total cost of the interests acquired in these companies was \$134 million. Prior to these acquisitions, OAO Tebukneft and OAO Ukhtaneft were recorded as associated companies using the equity method of accounting. OAO Tebukneft, OAO Ukhtaneft and ZAO RKM-Oil are exploration and production companies operating in the Komi Republic of the Russian Federation.

In June 2003, the Group acquired 21.5% of outstanding shares in OAO Komineft for \$63 million, thereby increasing the Group's ownership stake in OAO Komineft to 91.5%. OAO Komineft is a Russian oil and gas exploration company operating predominantly in the Komi Republic of the Russian Federation.

In April 2003, the Group acquired 80.8% of the shares in OAO Yaregskaya Nefte-Titan Company ("YaNTK") for \$240 million, thereby increasing the Group's ownership stake in YaNTK to 98.8%. YaNTK is a company with significant oil and titanium reserves operating in the Komi Republic of the Russian Federation.

The financial position and the results of operations of OAO Tebukneft, OAO Ukhtaneft, ZAO RKM-Oil and YaNTK were included in these interim consolidated financial statements beginning from the dates of respective acquisitions.

Purchases of additional interests in ZAO LUKOIL-Perm, OAO Tebukneft, OAO Ukhtaneft, ZAO RKM-Oil, OAO Komineft and YaNTK did not have a material impact on the Group's consolidated operations for the period ended June 30, 2003. Therefore, no pro-forma income statement information has been provided in these interim consolidated financial statements.

Note 14. 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 14. Related party transactions (continued)

Sales of oil and oil products to related parties were \$36 million, \$32 million, \$64 million and \$112 million for the three months ended June 30, 2003 and 2002 and for the six months ended June 30, 2003 and 2002, respectively.

Other sales to related parties were \$33 million, \$11 million, \$50 million and \$24 million for the three months ended June 30, 2003 and 2002 and for the six months ended June 30, 2003 and 2002, respectively.

Purchases of oil and oil products from related parties were \$105 million, \$85 million, \$196 million and \$122 million for the three months ended June 30, 2003 and 2002 and for the six months ended June 30, 2003 and 2002, respectively.

Purchases of construction services from related parties were \$148 million, \$82 million, \$233 million and \$140 million for the three months ended June 30, 2003 and 2002 and for the six months ended June 30, 2003 and 2002, respectively.

Purchases of insurance services from related parties were \$46 million, \$53 million, \$89 million and \$85 million during the three months ended June 30, 2003 and 2002 and during the six months ended June 30, 2003 and 2002, respectively.

Other purchases from related parties were \$33 million, \$2 million, \$41 million and \$4 million for the three months ended June 30, 2003 and 2002 and for the six months ended June 30, 2003 and 2002, respectively.

Amounts receivable from related parties, including loans and advances, were \$375 million and \$267 million as of June 30, 2003 and December 31, 2002, respectively. Amounts payable to related parties were \$104 million and \$99 million as of June 30, 2003 and December 31, 2002, respectively.

As of June 30, 2003 and December 31, 2002 the Government of the Russian Federation owned 8% of the shares of the common stock of the Company. During the six months ended June 30, 2002, the Government's ownership was 14%. The Russian Federation also owns, controls, or has significant influence over the operations of many other companies and enterprises in the Russian Federation and has a significant influence on the operation of business and the economic environment. A significant part of the activity of Group companies is linked to companies belonging to or controlled by the Russian Federation. The Russian Federation is a customer and supplier of the Group through numerous affiliated and other related organizations. Management consider such trading relationships as part of the normal course of conducting business in the Russian Federation and consider that such relationships will remain for the foreseeable future. Accordingly, information on these transactions is not disclosed as related party transactions.

Note 15. Segment information

Presented below is information about the Group's operating and geographical segments for the periods ended June 30, 2003 and 2002, in accordance with SFAS No. 131, "*Disclosures about Segments of an Enterprise and Related Information.*"

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

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

Note 15. Segment information (continued)

The segment information for the three and six month periods ended June 30, 2002 was restated to reflect the change in composition of the Group's operating segments.

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

Operating segments

For the three months ended June 30, 2003

	Exploration and production	Refining, marketing and distribution	Chemicals	Other	Elimination	Consolidated
Sales						
Third parties	365	4,480	230	11	-	5,086
Inter-segment	1,247	83	1	9	(1,340)	-
Total sales	1,612	4,563	231	20	(1,340)	5,086
Operating expenses and total cost of purchases						
	536	2,704	188	10	(1,359)	2,079
Depreciation, depletion and amortization expense						
	157	67	1	1	-	226
Interest expense						
	24	54	1	20	(21)	78
Income tax expense						
	42	100	2	2	-	146
Net income						
	1,296	183	17	28	20	1,544
Total assets						
	14,874	13,155	246	1,390	(4,464)	25,201
Capital expenditures						
	551	241	6	-	-	798

For the three months ended June 30, 2002

	Exploration and production	Refining, marketing and distribution	Chemicals	Other	Elimination	Consolidated
Sales						
Third parties	264	3,396	123	11	-	3,794
Inter-segment	941	28	1	14	(984)	-
Total sales	1,205	3,424	124	25	(984)	3,794
Operating expenses and total cost of purchases						
	416	1,517	125	10	(970)	1,098
Depreciation, depletion and amortization expense						
	181	59	-	1	-	241
Interest expense						
	19	34	-	11	(5)	59
Income tax expense						
	42	165	2	4	-	213
Net income						
	161	453	1	-	(18)	597
Total assets						
	12,270	11,156	63	942	(3,713)	20,718
Capital expenditures						
	176	187	-	4	-	367

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

Note 15. Segment information (continued)

For the six months ended June 30, 2003

	Exploration and production	Refining, marketing and distribution	Chemicals	Other	Elimination	Consolidated
Sales						
Third parties	746	8,956	425	15	-	10,142
Inter-segment	2,458	140	3	19	(2,620)	-
Total sales	3,204	9,096	428	34	(2,620)	10,142
Operating expenses and total cost of purchases						
	1,094	5,209	350	16	(2,643)	4,026
Depreciation, depletion and amortization expense	306	145	2	2	-	455
Interest expense	48	103	2	34	(47)	140
Income tax expense	88	316	4	6	-	414
Net income	1,491	744	27	35	67	2,364
Total assets	14,874	13,155	246	1,390	(4,464)	25,201
Capital expenditures	942	409	10	5	-	1,366

For the six months ended June 30, 2002

	Exploration and production	Refining, marketing and distribution	Chemicals	Other	Elimination	Consolidated
Sales						
Third parties	516	5,863	246	16	-	6,641
Inter-segment	1,769	89	2	29	(1,889)	-
Total sales	2,285	5,952	248	45	(1,889)	6,641
Operating expenses and total cost of purchases						
	868	2,911	228	19	(1,875)	2,151
Depreciation, depletion and amortization expense	340	136	1	1	-	478
Interest expense	42	74	1	23	(14)	126
Income tax expense	90	187	3	7	-	287
Net income	150	689	3	14	(16)	840
Total assets	12,270	11,156	63	942	(3,713)	20,718
Capital expenditures	580	319	1	5	-	905

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

Note 15. Segment information (continued)

Geographical segments

	For the three months ended June 30, 2003	For the three months ended June 30, 2002	For the six months ended June 30, 2003	For the six months ended June 30, 2002
Sales of crude oil within Russia	100	134	151	235
Export of crude oil and sales of oil of foreign subsidiaries	1,467	1,036	3,106	1,983
Sales of refined product within Russia	743	626	1,582	1,156
Export of refined product and sales of refined products of foreign subsidiaries	2,281	1,618	4,358	2,606
Sales of chemicals within Russia	49	32	84	62
Export of chemicals and sales of chemicals by foreign subsidiaries	154	91	314	184
Other sales within Russia	174	156	327	264
Other export sales and other sales of foreign subsidiaries	118	101	220	151
Total sales	5,086	3,794	10,142	6,641

For the three months ended June 30, 2003

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	97	1,184	3,805	-	5,086
Inter-segment	712	1,679	5	(2,396)	-
Total sales	809	2,863	3,810	(2,396)	5,086
Operating expenses and total cost of purchases	219	1,155	3,118	(2,413)	2,079
Depletion, depreciation and amortization expense	77	118	31	-	226
Interest expense	1	67	18	(8)	78
Income tax expense	29	105	12	-	146
Net income	142	314	1,191	(103)	1,544
Total assets	6,194	14,811	6,774	(2,578)	25,201
Capital expenditures	165	455	178	-	798

For the three months ended June 30, 2002

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	80	987	2,727	-	3,794
Inter-segment	478	1,627	18	(2,123)	-
Total sales	558	2,614	2,745	(2,123)	3,794
Operating expenses and total cost of purchases	221	821	2,162	(2,106)	1,098
Depletion, depreciation and amortization expense	86	104	51	-	241
Interest expense	6	49	12	(8)	59
Income tax expense	11	202	-	-	213
Net income	101	423	131	(58)	597
Total assets	5,492	12,789	4,537	(2,100)	20,718
Capital expenditures	91	142	134	-	367

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

Note 15. Segment information (continued)

For the six months ended June 30, 2003

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	199	2,465	7,478	-	10,142
Inter-segment	1,387	3,639	12	(5,038)	-
Total sales	1,586	6,104	7,490	(5,038)	10,142
Operating expenses and total cost of purchases					
	483	2,377	6,227	(5,061)	4,026
Depletion, depreciation and amortization expense					
	153	238	64	-	455
Interest expense					
	5	116	31	(12)	140
Income tax expense					
	39	358	17	-	414
Net income					
	204	1,019	1,262	(121)	2,364
Total assets					
	6,194	14,811	6,774	(2,578)	25,201
Capital expenditures					
	264	816	286	-	1,366

For the six months ended June 30, 2002

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	145	1,809	4,687	-	6,641
Inter-segment	943	2,812	33	(3,788)	-
Total sales	1,088	4,621	4,720	(3,788)	6,641
Operating expenses and total cost of purchases					
	448	1,644	3,830	(3,771)	2,151
Depletion, depreciation and amortization expense					
	166	225	87	-	478
Interest expense					
	11	91	32	(8)	126
Income tax expense					
	31	255	1	-	287
Net income					
	67	673	154	(54)	840
Total assets					
	5,492	12,789	4,537	(2,100)	20,718
Capital expenditures					
	185	547	173	-	905

Note 16. Contingencies

Litigation and claims

On November 27, 2001, Archangel Diamond Corporation (“ADC”), a Canadian diamond development company, filed a lawsuit in the district court of Denver, Colorado, against OAO Arkhangel'skgeoldobycha (“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.

Note 16. Contingencies (continued)

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

Taxation environment

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

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

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

Other matters

During July 2001, the Group temporarily shut down operations of the Petrotel refinery due to the economic conditions in Romania. The refinery remains closed as of the date of these consolidated financial statements. Management has recently completed and approved the results of a feasibility study and investment program to upgrade the Petrotel refinery and resume operations during 2004. The Group has started implementation of this investment program during 2003.

Note 17. Subsequent events

In September 2003, the Group acquired 100% of the share capital of MV Properties for \$121 million. MV Properties is a marketing and distribution company operating in Romania.

In August 2003, the Group acquired 25.5% of share capital of AGD in exchange for its 13.6% investment in ZAO Rosshelf and 30% investment in OOO Polar Lights Company. The carrying value of these investments as of June 30, 2003 was approximately \$40 million. The acquisition increased the Group's ownership stake in AGD to 99.7%. AGD is a Russian oil and gas exploration company operating predominantly within the Timan-Pechora region of Northern Russia.