OAO LUKOIL

CONSOLIDATED FINANCIAL STATEMENTS

(prepared in accordance with US GAAP)

As of December 31, 2001 and 2000
and for each of the years in the three year period
ended December 31, 2001

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, 2001 and 2000, 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, 2001. 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, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

KPMG Limited

June 25, 2002
Moscow, Russian Federation

OAO LUKOIL
Consolidated Balance Sheets
As of December 31, 2001 and 2000
(Millions of US dollars, unless otherwise noted)

	2001	2000
Assets		
Current assets		
Cash and cash equivalents	1,170	1,137
Short-term investments	218	253
Accounts and notes receivable, net	2,230	2,948
Inventories	829	719
Prepaid taxes and other expenses	889	675
Other current assets	340	362
Total current assets	**5,676**	**6,094**
Investments	770	423
Property, plant and equipment	12,296	9,906
Deferred income tax assets	291	201
Goodwill and intangible assets	485	278
Other non-current assets	424	207
Total assets	**19,942**	**17,109**
Liabilities and Stockholders' equity		
Current liabilities		
Accounts payable	1,402	2,221
Short-term borrowings and current portion of long-term debt	1,480	829
Taxes payable	522	404
Other current liabilities	421	238
Total current liabilities	**3,825**	**3,692**
Long-term debt	1,948	1,483
Deferred income tax liabilities	390	284
Other long-term liabilities	463	147
Minority interest in subsidiary companies	931	984
Total liabilities	**7,557**	**6,590**
Stockholders' equity		
Common stock (850 million and 757 million shares of par value of 0.025 Russian rubles each, authorized in 2001 and 2000, respectively; 850 million (including 19 million held by subsidiaries) and 738 million shares issued in 2001 and 2000, respectively; 805 million and 715 million shares outstanding in 2001 and 2000, respectively)	15	14
Preferred stock (nil and 77 million shares of par value of 0.025 Russian rubles each authorized and issued in 2001 and 2000, respectively; nil and 77 million shares outstanding in 2001 and 2000, respectively)	-	1
Treasury stock (common and preferred stock, at cost; 26 million and 23 million shares in 2001 and 2000, respectively)	(403)	(376)
Additional paid-in capital	3,044	2,895
Retained earnings	9,738	7,994
Accumulated other comprehensive loss	(9)	(9)
Total stockholders' equity	**12,385**	**10,519**
Total liabilities and stockholders' equity	**19,942**	**17,109**

President of OAO LUKOIL
Alekperov V.Y.

First Vice-President of OAO LUKOIL
Kukura S.P.

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

OAO LUKOIL
Consolidated Statements of Income
For the years ended December 31, 2001, 2000 and 1999
(Millions of US dollars, except share data)

	2001	2000	1999
Revenues			
Sales (including excise and export tariffs)	13,426	13,210	7,544
Equity share in income of affiliates	136	230	88
Total revenues	**13,562**	**13,440**	**7,632**
Costs and other deductions			
Operating expenses	(4,671)	(4,225)	(2,622)
Selling, general and administrative expenses	(2,294)	(1,956)	(1,623)
Depreciation, depletion and amortization	(886)	(838)	(598)
Taxes other than income taxes	(1,010)	(1,050)	(527)
Excise and export tariffs	(1,456)	(932)	(460)
Exploration expense	(144)	(130)	(61)
Loss on disposal and impairment of assets	(153)	(247)	(49)
Income from operating activities	**2,948**	**4,062**	**1,692**
Interest expense	(257)	(198)	(192)
Interest and dividend income	146	209	73
Currency translation (loss) gain	(33)	1	(34)
Other non-operating income (expense)	31	71	(168)
Minority interest	(52)	(61)	(34)
Income before income taxes	**2,783**	**4,084**	**1,337**
Current income taxes	(861)	(790)	(390)
Deferred income taxes	187	18	115
Net income	**2,109**	**3,312**	**1,062**
Dividends declared on preferred stock	(157)	(47)	(8)
Net income available for common stockholders	**1,952**	**3,265**	**1,054**
Basic earnings per share of common stock (US dollars)	2.68	4.83	1.69
Diluted earnings per share of common stock (US dollars)	2.66	4.73	1.69

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

OAO LUKOIL
Consolidated Statements of Stockholders' Equity and Comprehensive Income
For the years ended December 31, 2001, 2000 and 1999
(Millions of US dollars, unless otherwise noted)

	2001		2000		1999	
	Stockholders' equity	Comprehensive income	Stockholders' equity	Comprehensive income	Stockholders' equity	Comprehensive income
Common stock						
Balance at January 1	14		14		14	
Conversion of preferred stock into common stock	1		-		-	
Outstanding at December 31	**15**		**14**		**14**	
Preferred stock						
Balance at January 1	1		1		1	
Conversion of preferred stock into common stock	(1)		-		-	
Outstanding at December 31	**-**		**1**		**1**	
Treasury stock						
Balance at January 1	(376)		(549)		(426)	
Stock purchased	(185)		(1,021)		(150)	
Stock issued	158		1,194		27	
Balance at December 31	**(403)**		**(376)**		**(549)**	
Additional paid-in capital						
Balance at January 1	2,895		2,816		2,245	
Premium on new shares issued	147		-		-	
Premium on shares issued for KomiTEK acquisition	-		-		469	
Contributions required and received under privatization tender	-		117		102	
Proceeds from issuance of treasury stock in excess of carrying amount	2		292		-	
Put option on Company's common stock	-		(330)		-	
Balance at December 31	**3,044**		**2,895**		**2,816**	
Retained earnings						
Balance at January 1	7,994	-	4,803	-	3,756	-
Net income	2,109	2,109	3,312	3,312	1,062	1,062
Dividends on preferred stock	(157)	-	(47)	-	(8)	-
Dividends on common stock	(208)	-	(74)	-	(7)	-
Balance at December 31	**9,738**		**7,994**		**4,803**	
Accumulated other comprehensive loss, net of tax						
Balance at January 1	(9)		(12)		(5)	
Foreign currency translation adjustment	14	14	3	3	(7)	(7)
Minimum pension liability adjustment	(14)	(14)	-	-	-	-
Balance at December 31	**(9)**		**(9)**		**(12)**	
Total comprehensive income for the year		2,109		3,315		1,055
Total stockholders' equity as of December 31	**12,385**		**10,519**		**7,073**	

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

	Share activity		
	2001	**2000**	**1999**
	(millions of shares)	**(millions of shares)**	**(millions of shares)**
Common stock			
Balance at January 1	738	738	669
Issuance of common stock	35	-	-
Conversion of preferred stock into common stock (1 preference share into 6 common shares)	-	-	69
Conversion of preferred stock into common stock (1 preference share into 1 common shares)	77	-	-
Balance at December 31	**850**	**738**	**738**
Preferred stock			
Balance at January 1	77	77	77
Issuance of preferred stock	-	-	12
Conversion of preferred stock into common stock	(77)	-	(12)
Balance at December 31	**-**	**77**	**77**
Treasury stock			
Balance at January 1	(23)	(62)	(48)
Purchase of treasury stock	(17)	(88)	(25)
Sales of treasury stock	14	127	11
Balance at December 31	**(26)**	**(23)**	**(62)**

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

OAO LUKOIL
Consolidated Statements of Cash Flows
For the years ended December 31, 2001, 2000 and 1999
(Millions of US dollars)

	2001	2000	1999
Cash flows from operating activities			
Net income	**2,109**	**3,312**	**1,062**
Adjustments for non-cash items			
Depreciation, depletion and amortization	886	838	598
Equity share in income of affiliates	(136)	(230)	(88)
Loss on disposal and impairment of assets	153	247	49
Deferred income taxes	(187)	(18)	(115)
Non-cash currency translation gain (loss)	24	(29)	(37)
Non-cash investing activities	(96)	(177)	(92)
Exploration expense	144	130	61
All other items – net	37	25	(12)
Changes in operating assets and liabilities:			
Accounts and notes receivable	931	(1,142)	(139)
Short-term loans receivable of a banking subsidiary	(95)	(71)	(70)
Net movements of short-term borrowings of a banking subsidiary	208	102	140
Inventories	(56)	(50)	(25)
Accounts payable	(1,077)	541	147
Taxes payable	109	(195)	(71)
Other current assets and liabilities	(281)	(515)	32
Net cash provided by operating activities	**2,673**	**2,768**	**1,440**
Cash flows from investing activities			
Capital expenditures	(2,521)	(1,674)	(766)
Proceeds from sale of property, plant and equipment	45	10	41
Purchases of investments	(314)	(197)	(390)
Proceeds from sale of investments	228	47	250
Acquisitions of subsidiaries, net of cash acquired	(499)	(98)	(10)
Net cash used in investing activities	**(3,061)**	**(1,912)**	**(875)**
Cash flows from financing activities			
Net movements of short-term borrowings	121	11	(400)
Proceeds from issuance of long-term debt	938	291	549
Principal payments of long-term debt	(349)	(439)	(189)
Dividends paid	(244)	(118)	(21)
Financing received from stockholders under privatization tender	-	50	102
Purchase of treasury stock	(185)	(1,021)	(150)
Proceeds from sale of treasury stock	158	1,005	27
Other – net	32	(7)	(6)
Net cash provided by (used in) financing activities	**471**	**(228)**	**(88)**
Effect of exchange rate changes on cash and cash equivalents	(50)	(28)	(33)
Net increase in cash and cash equivalents	**33**	**600**	**444**
Cash and cash equivalents at beginning of year	1,137	537	93
Cash and cash equivalents at end of year	**1,170**	**1,137**	**537**

Supplemental disclosures of cash flow information			
Interest paid	276	170	134
Income taxes paid	833	865	302

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 environment for business in the Russian Federation has changed rapidly over the last decade from a system where central planning and direction dominated to one in which market forces increasingly operate. As a result of the speed and continuation of this complex change, the legal and regulatory framework in place in more mature market economies for the protection and regulation of companies and investors is still developing.

The Russian Federation and other former Soviet Union republics have also experienced periods of political change and macro-economic instability during recent years.

These factors have affected and may continue to affect the activities of enterprises doing business in these environments. Operating in the Russian Federation and other former Soviet Union republics involves risks which do not typically exist in more mature and developed market economies.

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. Among other things, this includes assessment of collectability of accounts receivable and provisions for taxes (including penalties and interest). 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").

These financial statements are not the statutory financial statements of the Company which are prepared annually and presented in accordance with Russian accounting regulations ("RAR"). The statutory financial statements of the Company for 2001, 2000 and 1999 have been filed with appropriate authorities.

Differences exist between the requirements of RAR and those of US GAAP. Accordingly, these consolidated financial statements differ in material respects from the statutory financial statements of the Company.

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" at cost or fair value.

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.

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

Foreign currency translation

The accounting records of Group companies' operations in the Russian Federation are maintained in Russian rubles and the Company prepares its statutory financial statements and reports in that currency to its shareholders in accordance with the laws of the Russian Federation.

As the Russian economy 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 considered to be the reporting currency of the Group.

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

For operations in the Russian Federation or other economies considered to be hyperinflationary, 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, 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.

Note 2. Summary of significant accounting policies (continued)

As of December 31, 2001, 2000 and 1999, exchange rates of 30.14, 28.16 and 27.00 Russian rubles, respectively to the US dollar have been used for translation purposes.

A significant portion of the balances and transactions of Group companies are denominated in Russian rubles or in currencies of certain republics of the former Soviet Union. Accordingly, future movements in the exchange rate between the US dollar and the Russian ruble and such other currencies may significantly affect the carrying value of the monetary assets and liabilities of the Group expressed in US dollars. Such changes may also affect the Group's ability to realize non-monetary assets at the amounts stated in the consolidated financial statements.

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.

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.

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.

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.

Note 2. Summary of significant accounting policies (continued)

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.

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 intangible assets

Goodwill represents the excess of purchase price over the fair value of net assets acquired. In accordance with the provisions of SFAS No. 142, "*Goodwill and Other Intangible Assets*" goodwill acquired before June 30, 2001 has been amortized on a straight-line basis over its useful life to a maximum 20 years. Goodwill acquired after June 30, 2001 is not amortized.

Identifiable intangible assets are amortized on a straight-line basis over their useful or legal lives to a maximum of 20 years.

Note 2. Summary of significant accounting policies (continued)

Impairment of long-lived assets

Long-lived assets, including oil and gas properties and goodwill, are assessed for possible impairment in accordance with SFAS No. 121, "*Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*". SFAS No. 121 requires long-lived assets with recorded values which are not expected to be recovered through future cash flows to be written down to current fair value. Fair value is generally determined by reference to discounted estimated future net cash flows. Permanent impairment of the carrying value of long-lived assets is assessed by comparing the carrying value against the undiscounted projection of net future pre-tax cash flows. Where an assessment has indicated impairment in value, the long-lived assets are written down to their fair value, as determined by the discounted projection of net future pre-tax cash flows.

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.

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.

Note 2. Summary of significant accounting policies (continued)

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 balance sheet dates, 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 are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed.

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.

Recent accounting pronouncements

Effective January 1, 2001, the Group adopted SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities"* and SFAS No. 138, "*Accounting for Certain Derivative Instruments and Certain Hedging Activities – An Amendment of FASB Statement No. 133."* SFAS No. 133 and SFAS No. 138 establish new accounting and reporting standards for derivative instruments and hedging activities and require recognition of all derivatives as assets or liabilities in the balance sheet and measurement of those instruments at fair value. The effect of the adoption of these standards on the Group's operations and consolidated financial statements was not material because of its limited use of derivative instruments.

In June 2001, the FASB issued SFAS No. 141, *"Business Combinations."* SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and specifies that certain acquired intangible assets be recognized apart from goodwill. The Group adopted SFAS No. 141 during 2001.

(Millions of US dollars, except as indicated)

Note 2. Summary of significant accounting policies (continued)

In June 2001, the FASB issued SFAS No. 142, *"Goodwill and Other Intangible Assets."* SFAS No. 142 revises the accounting standards for intangible assets which are acquired individually or with a group of other assets, other than those acquired in a business combination. Under SFAS No. 142, goodwill and certain intangible assets will no longer be amortized, but will be subject to annual impairment tests. The Group adopted SFAS No. 142 effective January 1, 2002. The Group is currently evaluating the impact of adopting SFAS No. 142, including whether any transitional impairment losses will be required to be recognized as a cumulative effect of a change in accounting principle. The Group does not anticipate any significant transitional losses to be incurred in 2002 as a result of the adoption. Beginning January 1, 2002, effective with the adoption of SFAS No. 142, the Group will no longer record amortization expense related to goodwill.

In July 2001, the 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 asset retirement obligation is to be amortized to expense using a systematic and rational method. The Group is required to adopt SFAS No. 143 in the financial year beginning January 1, 2003. The Group is currently evaluating the impact of adopting SFAS No. 143.

In October 2001, the FASB issued SFAS No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets,"* which addresses financial accounting and reporting for the impairment of long-lived assets and long-lived assets to be disposed of. The standard supersedes, with exceptions, SFAS No. 121, *"Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of"*. SFAS No. 144 became effective for the Group on January 1, 2002. The Group is currently evaluating the impact of adopting SFAS No. 144.

Comparative amounts

Prior year amounts have been reclassified, where applicable, to conform with current year presentation. Reclassifications primarily relate to the reclassification of certain excise taxes, operating expenses, and income tax related expenditures. Note 11 "Taxes" sets out additional information about the reclassifications affecting income taxes.

Note 3. Cash and cash equivalents

	As of December 31, 2001	As of December 31, 2000
Cash held in Russian rubles	373	142
Cash held in other currencies	797	995
Total cash and cash equivalents	**1,170**	**1,137**

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, 2001	Year ended December 31, 2000	Year ended December 31, 1999
Settlement of amounts payable through exchange of goods	1,194	1,224	740
Net non-cash investing activities	96	177	92
Total non-cash transactions	**1,290**	**1,401**	**832**

(Millions of US dollars, except as indicated)

Note 4. Non-cash transactions (continued)

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

	Year ended December 31, 2001	Year ended December 31, 2000	Year ended December 31, 1999
Net cash used in investing activities	3,061	1,912	875
Net non-cash investing activities	96	177	92
Net cash and non-cash investing activities	**3,157**	**2,089**	**967**

Note 15 "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, 2001	As of December 31, 2000
Trade accounts and notes receivable (net of provisions of $77 million and $98 million as of December 31, 2001 and 2000, respectively)	1,383	2,236
Current VAT recoverable	434	378
Short-term loans receivable of a banking subsidiary (net of provisions of $14 million and $11 million as of December 31, 2001 and 2000, respectively)	236	141
Other current accounts receivable (net of provisions of $21 million and $16 million as of December 31, 2001 and 2000, respectively)	177	193
Total accounts and notes receivable	**2,230**	**2,948**

Note 6. Inventories

	As of December 31, 2001	As of December 31, 2000
Crude oil and petroleum products	389	346
Materials for extraction and drilling	218	155
Materials and supplies for refining	80	53
Other goods, materials and supplies	142	165
Total inventories	**829**	**719**

Note 7. Investments

	As of December 31, 2001	As of December 31, 2000
Investments in "equity method" affiliates and joint ventures	382	274
Cash security deposit in a bank	215	-
Other long-term investments	173	149
Total long-term investments	**770**	**423**

(Millions of US dollars, except as indicated)

Note 7. Investments (continued)

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, 2001		Year ended December 31, 2000		Year ended December 31, 1999	
	Total	Group's share	Total	Group's share	Total	Group's share
Revenues	1,696	694	2,403	1,040	2,008	751
Income before income taxes	436	197	691	318	406	140
Less income taxes	(115)	(61)	(209)	(88)	(140)	(52)
Net income	**321**	**136**	**482**	**230**	**266**	**88**

	As of December 31, 2001		As of December 31, 2000	
	Total	Group's share	Total	Group's share
Current assets	493	194	514	213
Property, plant and equipment, net	1,903	941	1,188	598
Other non-current assets	126	56	32	14
Total assets	2,522	1,191	1,734	825
Short-term debt	65	27	2	-
Other current liabilities	452	173	275	112
Long-term debt	1,214	579	785	418
Other non-current liabilities	60	30	48	21
Net assets	**731**	**382**	**624**	**274**

(Millions of US dollars, except as indicated)

Note 8. Property, plant and equipment

	At cost		Net	
	As of December 31, 2001	**As of December 31, 2000**	**As of December 31, 2001**	**As of December 31, 2000**
Exploration and Production:				
Western Siberia	11,281	10,652	4,193	3,798
European Russia	8,928	7,138	4,148	2,645
International	868	657	727	553
Total	21,077	18,447	9,068	6,996
Refining, Marketing and Distribution:				
Western Siberia	82	46	58	24
European Russia	4,307	4,063	2,335	2,133
International	1,511	1,344	668	574
Total	5,900	5,453	3,061	2,731
Other:				
Western Siberia	134	185	74	123
European Russia	81	52	72	43
International	47	25	21	13
Total	262	262	167	179
Total property, plant and equipment	**27,239**	**24,162**	**12,296**	**9,906**

Note 9. Short-term borrowings and current portion of long-term debt

	As of December 31, 2001	**As of December 31, 2000**
Short-term borrowings	1,002	623
Current portion of long-term debt	478	206
Total short-term borrowings and current portion of long-term debt	**1,480**	**829**

Short-term borrowings are loans from various third parties and are secured by export sales, property, plant and equipment and securities. The weighted-average interest rate on short-term borrowings from third parties was 4.9% per annum as of December 31, 2001.

Note 10. Long-term debt

	As of December 31, 2001	**As of December 31, 2000**
Long-term loans and borrowings from third parties (including loans from banks in the amount of $1,153 million, and $374 million as of December 31, 2001 and 2000, respectively)	1,453	755
Long-term loans and borrowings from related parties	1	5
3.5% Convertible US dollar bonds, maturing 2002	298	284
1% Convertible US dollar bonds, maturing 2003	476	445
Variable interest unsecured Russian ruble bonds, maturing 2003	99	107
Capital lease obligation	99	93
Total long-term debt	2,426	1,689
Current portion of long-term debt	(478)	(206)
Total non-current portion of long-term debt	**1,948**	**1,483**

Note 10. Long-term debt (continued)

Long-term loans and borrowings

Long-term loans and borrowings are primarily repayable in US dollars, maturing from 2002 through 2025 and are 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 6.32%, and 6.91% per annum as of December 31, 2001 and 2000, respectively.

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, 2001 and 2000 the amount of such security was nil.

The Company has a loan facility with the Russian Commercial Bank that provides borrowings up to $200 million. Borrowings under this loan facility bear interest at LIBOR plus 4%. At December 31, 2001 the amount outstanding under the loan facility was $200 million.

A Group subsidiary 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, 2001, $69 million was outstanding under this credit facility.

The Group has revolving credit facilities with a number of other banks that provide borrowings up to $261 million. The weighted-average interest rate under these credit facilities was 8.8% per annum as of December 31, 2001. At December 31, 2001 amounts outstanding under these credit facilities were $176 million.

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. The liability on the bonds was included in the current portion of long-term debt as of December 31, 2001. Subsequently, during 2002, these bonds have been redeemed for cash at the stated redemption price of 130.323% of the face value and 11,185,059 shares of common stock of the Company.

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 the bonds issued on November 3, 1997. The 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 throughout 2001 and 2000 to permit the full conversion of the bonds to GDRs.

Note 10. Long-term debt (continued)

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 $478 million in 2002, $799 million in 2003, $208 million in 2004, $424 million in 2005, $374 million in 2006 and $143 million thereafter.

Note 11. 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 “Current and Deferred income taxes” 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.

The statutory income tax rates in the Russian Federation applicable to the Company were:

35% from January 1, 2001 to December 31, 2001;
30% from April 1, 1999 to December 31, 2000;
35% from January 1, 1999 to March 31, 1999.

There are not currently, and have not been during the three years ended December 31, 2001, 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 a given year can be reduced by loss relief.

A number of concessionary taxation rates and allowances have been available to the Group in various jurisdictions during the three years ended December 31, 2001.

Taxation legislation changes in the area of Mineral Extraction and Excise Taxes, Capital Investment Concessions and Concessionary Rate Regimes have been recently made in the Russian Federation. These changes will first have an impact on the total cost of taxation for the Group in the year ending December 31, 2002. If not mitigated, these changes are expected to increase the overall taxes borne by the Group. In the past, the Group has been able to establish strategies which have reduced its overall cost of taxation. It may not be possible to establish other arrangements which facilitate similar tax efficiencies in the future to replace the arrangements which have reduced the cost of taxation in the years ended December 31, 2001, 2000 and 1999.

(Millions of US dollars, except as indicated)

Note 11. Taxes (continued)

Domestic and foreign components of net income before income taxes were:

	Year ended December 31, 2001	Year ended December 31, 2000	Year ended December 31, 1999
Domestic	2,616	4,012	1,430
Foreign	167	72	(93)
Income before income taxes	**2,783**	**4,084**	**1,337**

Domestic and foreign components of income taxes were:

	Year ended December 31, 2001	Year ended December 31, 2000	Year ended December 31, 1999
Current			
Domestic	849	775	372
Foreign	12	15	18
Current income taxes	861	790	390
Deferred			
Domestic	(207)	(27)	(106)
Foreign	20	9	(9)
Deferred income taxes	(187)	(18)	(115)
Total income taxes	**674**	**772**	**275**

The following table is a reconciliation of the notional income tax at the Russian statutory tax rate applied to income before income taxes to total income taxes:

	Year ended December 31, 2001	Year ended December 31, 2000	Year ended December 31, 1999
Income before income taxes	2,783	4,084	1,337
Notional income tax at Russian statutory rates	974	1,225	401
Increase (reduction) in income tax due to:			
Non-deductible items	191	327	157
Domestic and foreign rate differences	(233)	(409)	(135)
Foreign currency gains (losses)	8	17	(89)
Effect of rate changes	19	7	(13)
Investment tax credits	(325)	(417)	(56)
Change in valuation allowance	39	4	10
Other	1	18	-
Total income taxes	**674**	**772**	**275**

Taxes other than income taxes were:

	Year ended December 31, 2001	Year ended December 31, 2000	Year ended December 31, 1999
Royalty tax	347	259	168
Mineral replacement tax	215	150	114
Road users' tax	100	179	87
Social taxes and contributions	201	198	78
Property tax	83	50	32
Other taxes and contributions	64	214	48
Taxes other than income taxes	**1,010**	**1,050**	**527**

(Millions of US dollars, except as indicated)

Note 11. Taxes (continued)

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

	As of December 31, 2001	As of December 31, 2000
Other current assets	143	142
Deferred income tax assets – non-current	291	201
Other current liabilities	(124)	(108)
Deferred income tax liabilities – non-current	(390)	(284)
Net deferred income tax liability	**(80)**	**(49)**

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

	As of December 31, 2001	As of December 31, 2000
Accounts receivable	94	87
Long-term liabilities	173	105
Inventories	42	55
Property, plant and equipment	92	50
Accounts payable	23	17
Other	28	9
Operating loss carry forward	48	69
Total gross deferred income tax assets	500	392
Less valuation allowance	(66)	(49)
Deferred income tax assets	**434**	**343**
Property, plant and equipment	(334)	(257)
Accounts payable	(45)	(54)
Accounts and notes receivable	(36)	(52)
Inventories	(43)	-
Investments	(20)	(23)
Other	(36)	(6)
Deferred income tax liabilities	**(514)**	**(392)**
Net deferred income tax liability	**(80)**	**(49)**

Retained earnings of foreign subsidiaries included $691 million for which deferred taxation has not been provided for because remittance of the earnings has been indefinitely postponed through reinvestment and, as a result, such amounts are considered to be permanently invested.

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. Also, in accordance with SFAS No. 109, no deferred tax assets or liabilities are recognized for the effects of 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, 2001 and 2000.

(Millions of US dollars, except as indicated)

Note 11. Taxes (continued)

In August 2000, the Federal Law of the Russian Federation on Income Tax for Companies was amended, giving local authorities the right to increase the statutory income tax rate from 30 to 35 percent, effective from January 1, 2001. Accordingly, deferred taxes for Russian Group companies as of December 31, 2000 are calculated at 35 percent and the income tax expense recorded in the period ended December 31, 2000 includes a deferred tax expense of $7 million as a result of this change.

In August 2001, the Federal Law of the Russian Federation on Tax Code for Companies was amended, establishing a decrease of the statutory income tax rate from 35 to 24 percent, effective from January 1, 2002. Accordingly, deferred taxes for Russian Group companies as of December 31, 2001 are calculated at 24 percent and the income tax expense recorded in the period ended December 31, 2001 includes a deferred tax expense of $19 million as a result of this change. Also, as a result of the amendment, certain tax benefits have been eliminated, including investment tax credits.

At December 31, 2001, the Group has operating loss carry forwards of $184 million of which $75 million are attributable to Russian Group companies and expire up to 2011, and for other Group companies $51 million expire during 2006, $40 million expire during 2037, and $18 million have indefinite carry forward.

Reclassification of prior year amounts

During 2001, the Company changed its financial statement presentation for certain expenditures made to qualifying social programs from being reported as other non-operating expense to income tax expense. These expenditures are an allowable method of settling a portion of the Company's income tax liability. The Company believes this presentation is a better representation of its income tax provision associated with its core business. The Company has reclassified prior year amounts for comparability purposes. The effect is a reduction of other non-operating expense and an increase in current income tax expense of $221 million and $88 million for 2000 and 1999, respectively.

Note 12. 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.

The pension related expense was as follows:

	Year ended December 31, 2001	Year ended December 31, 2000	Year ended December 31, 1999
Service cost	8	7	7
Interest cost	16	22	23
Less expected return on plan assets	(6)	(3)	(2)
Amortization of prior service cost	5	5	5
Actuarial gain	(3)	-	-
Total expense	**20**	**31**	**33**

(Millions of US dollars, except as indicated)

Note 12. Pension benefits (continued)

An independent actuary has assessed the benefit obligations and plan assets for the fund as of December 31, 2001 and 2000 as summarized below:

	Year ended December 31, 2001	Year ended December 31, 2000
Benefit obligations		
Benefit obligations at January 1	110	121
Effect of exchange rate changes	(16)	(5)
Service cost	8	7
Interest cost	16	22
Plan amendments	144	7
Actuarial loss (gain)	108	(38)
Benefits paid	(3)	(4)
Benefit obligations at December 31	**367**	**110**
Plan assets		
Fair value of plan assets at January 1	24	12
Effect of exchange rate changes	(2)	(1)
Return on plan assets	6	5
Employer contributions	8	12
Benefits paid	(3)	(4)
Fair value of plan assets at December 31	**33**	**24**
Funded status	(334)	(86)
Unamortized prior service cost	193	62
Unrecognized actuarial loss (gain)	72	(38)
Net amount recognized	**(69)**	**(62)**
Amounts recorded in the consolidated balance sheets were:		
Accrued benefit liabilities	(281)	(62)
Intangible assets	193	-
Accumulated other comprehensive income	19	-
Net amount recognized	**(69)**	**(62)**

	Year ended December 31, 2001	Year ended December 31, 2000
Assumptions as of December 31		
Discount rate	22.0%	15.3%
Expected return on plan assets	22.0%	22.0%

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 13 “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 13. 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 20,987 million Russian rubles, 45,686 million Russian rubles and 13,404 million Russian rubles, respectively for 2001, 2000 and 1999, pursuant to the statutory financial statements, which at the US dollar exchange rates as of December 31, 2001, 2000 and 1999 amounted to $696 million, $1,622 million and $496 million, respectively.

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.

At the annual stockholders' meeting on June 29, 1999, dividends were declared for 1998 in the amount of 0.25 Russian rubles per common share and 2.67 Russian rubles per preferred share, which at the date of the decision was equivalent to $0.01 and $0.11, 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 and for minority interest shareholdings of OAO LUKOIL-Ukhtaneftepererabotka and OAO LUKOIL-Kominefteproduct (Note 15, "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.

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 OAO Arkhangelskgeoldobycha (Note 15, "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.

Note 13. Stockholders' equity (continued)

As noted in Note 12 "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, 2001	Year ended December 31, 2000	Year ended December 31, 1999
Net income	2,109	3,312	1,062
Dividends on preferred shares	(157)	(47)	(8)
Net income related to common shares	1,952	3,265	1,054
Add back convertible debt interest (net of tax at effective rate)			
3.5% Convertible US dollar bonds, maturing 2002	17	17	17
1% Convertible US dollar bonds, maturing 2003	23	23	23
Total diluted net income	1,992	3,305	1,094
Weighted average number of outstanding common shares (thousands of shares)	727,348	676,341	622,990
Add back treasury shares held in respect of convertible debt (thousands of shares)	21,675	21,675	21,675
Weighted average number of outstanding common shares, after dilution (thousands of shares)	749,023	698,016	644,665

Note 14. Financial instruments

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. Long-term debt is the only category of financial instruments whose fair value differs materially from the amount disclosed in the consolidated financial statements. The estimated fair value of long-term debt as of December 31, 2001 and 2000 was $2,081 million and $1,515 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 15. Business combinations

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 associated 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 is a Canadian oil exploration company with operations predominantly within the Komi Republic in the Russian Federation.

In March 2001, the Company acquired 74% of the shares in OAO Arkhangelskgeoldobycha in exchange for 17,710,697 shares of common stock and cash consideration of $130 million. The shares of OAO Arkhangelskgeoldobycha were held by third parties, LUKOIL - GARANT, a related party, and LUKOIL Finance Limited, a Group company, which had acquired its interest in OAO Arkhangelskgeoldobycha from a third party in January 2001 for $39 million. OAO Arkhangelskgeoldobycha is a Russian oil and gas exploration company operating predominantly within the Timan-Pechora region of Northern Russia.

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 Russian Federation.

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 December 2000, the Group acquired 32% of ZAO KomiArcticOil for $44 million thereby increasing the Group's ownership stake in ZAO KomiArcticOil to 53%. Prior to the acquisition, ZAO KomiArcticOil was recorded as an associated company using the equity method of accounting. ZAO KomiArcticOil is an exploration and production company operating in the Komi Republic in the Russian Federation.

In June 2000, the Group acquired 7% of OAO RITEK for $1 million thereby increasing the Group's ownership stake in OAO RITEK to 51%. Prior to this acquisition, OAO RITEK was recorded as an associated company using the equity method of accounting. OAO RITEK is an exploration and production company operating in Western Siberia.

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 associated 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.

In May 2000, the Group acquired LUK - Sintez Oil B.V. which owns 97% of the OAO Odessa Oil Refinery Plant located in Ukraine for $20 million.

(Millions of US dollars, except as indicated)

Note 15. Business combinations (continued)

In October 1999, the Group was part of a consortium which acquired 58% of the company which owns the Neftochim Burgas AD refinery located in Bulgaria for $81 million. The Group held a 51% interest in this consortium. During 2000, the Group bought out the remaining 49% consortium interest held by other consortium parties. The consideration for this acquisition was cash of $45 million and debt of $42 million to be paid over 7 years. The Group's effective ownership in the Neftochim Burgas AD refinery as of December 31, 2001 and 2000 was 58%.

In September 1999, the Group acquired OAO KomiTEK and minority interests held in the OAO KomiTEK group of companies for $619 million through a share exchange. OAO KomiTEK is an integrated oil and gas company operating primarily in the Komi Republic in the Russian Federation.

Note 16. 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, 2001 the Group's commitments under this agreement were $184 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, 2001 the Group's commitments under this agreement were $114 million.

Group companies have commitments of $39 million in 2002 and $6 million in 2003 for the construction of oil tankers.

Group companies have exploratory and development drilling commitments under the terms of exploration and development license agreements in the Russian Federation of $471 million over the next 5 years.

Group companies have commitments for capital expenditure contributions in the amount of $1,008 million to be spent in the Caspian region over the next 29 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.

Operating lease obligations

A Group company has commitments of $864 million for the lease of petroleum distribution outlets over the next 14 years. Commitments for minimum rentals under these leases as of December 31, 2001 are as follows:

	As of December 31, 2001
2002	67
2003	62
2004	62
2005	62
2006	62
beyond	549

Note 16. Commitments and contingencies (continued)

Letters of credit and financial guarantees

As of December 31, 2001 and 2000, Group companies were contingently liable for performance under letters of credit and other financial guarantees totaling approximately $975 million and $5 million, respectively.

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. The Group does not have full coverage for its plant facilities, for business interruption, for third party liability in respect of property and for environmental damage arising from accidents on Group property or relating to Group operations. Until Group companies are able to obtain adequate insurance coverage, there is 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.

In respect of disassembling equipment, winding up production and restoring work sites, potential expenses for Group companies as of December 31, 2001 and 2000 were estimated at $1,546 million and $964 million, respectively. Of these amounts, $267 million and $200 million are included in accumulated depreciation, depletion and amortization as of December 31, 2001 and 2000, respectively.

Social assets

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

Note 16. Commitments and contingencies (continued)

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 numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who 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 Group has implemented tax planning and management strategies based on legislation existing at the time of implementation. Management believes that it has adequately met and provided for tax liabilities based on its interpretation of such legislation. However, the relevant 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 OAO “Arkhangelskgeoldobycha” (“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. The claim is currently in its early stages, but the Company believes the claim to be without merit and plans a vigorous defense, which includes among other defenses an objection to jurisdiction. While the claim is in its early stages and no assurance can be given about the ultimate outcome, 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 financial statements. Management is currently assessing its plans regarding the future operations of this refinery and options in relation to the Group’s Romanian operations. If management decides to sell or abandon the refinery, the Group may be exposed to losses on the carrying value of property, plant and equipment of 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 17. 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.

Sales of oil and oil products to related parties were $98 million, $44 million and $215 million for the years ended December 31, 2001, 2000 and 1999, respectively.

Other sales to related parties were $46 million, $34 million and $10 million for the years ended December 31, 2001, 2000 and 1999, respectively.

Purchases of oil and oil products from related parties were $305 million, $441 million and $273 million for the years ended December 31, 2001, 2000 and 1999, respectively.

Purchases of construction services from related parties were $389 million, $355 million and $118 million for the years ended December 31, 2001, 2000 and 1999, respectively.

Other purchases from related parties were $128 million, $181 million and $83 million for the years ended December 31, 2001, 2000 and 1999, respectively.

Purchases of insurance services from related parties were $214 million during the year ended December 31, 2001. During 2000 and 1999, these services were provided by Group companies. These companies were part of the group of companies sold to LUKOIL-GARANT during 2000 (Note 12 “Pension benefits”).

Amounts receivable from related parties, including loans and advances, were $209 million and $121 million as of December 31, 2001 and 2000, respectively. Amounts payable to related parties were $73 million and $83 million as of December 31, 2001 and 2000, respectively.

As of December 31, 2001 and 2000 the Government of the Russian Federation owned 14% and 16% 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 18. Segment information

Presented below is information about the Company’s operating and geographical segments for the years ended December 31, 2001, 2000 and 1999 in accordance with SFAS No. 131, *“Disclosures about Segments of an Enterprise and Related Information”*.

(Millions of US dollars, except as indicated)

Note 18. Segment information (continued)

The Company 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 Company's traditional operations.

For the years ended December 31, 2001, 2000 and 1999 the Group had one customer who accounted for 14.6%, 18.2% and 21.2% of total sales, respectively.

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

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	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

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	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

(Millions of US dollars, except as indicated)

Note 18. Segment information (continued)

1999	**Exploration and production**	**Refining, marketing and distribution**	**Other**	**Elimination**	**Consolidated**
Sales					
Third parties	635	6,798	111	-	7,544
Inter-segment	1,491	59	2	(1,552)	-
Total sales	2,126	6,857	113	(1,552)	7,544
Operating expenses	648	3,470	56	(1,552)	2,622
Depletion, depreciation and amortization	471	127	-	-	598
Interest expense	26	167	9	(10)	192
Income taxes	54	215	6	-	275
Net income	139	851	72	-	1,062
Total assets	7,671	5,828	154	(1,150)	12,503
Capital expenditures	388	466	4	-	858

Geographical segments

	2001	**2000**	**1999**
Sales of crude oil within Russia	992	1,471	989
Export of crude oil and sales of oil by foreign subsidiaries	3,951	4,380	3,812
Sales of refined product within Russia	2,595	2,287	520
Export of refined product and sales of refined products by foreign subsidiaries	4,901	4,165	1,544
Other sales within Russia	594	830	576
Other export sales and other sales of foreign subsidiaries	393	77	103
Total sales	13,426	13,210	7,544

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	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

(Millions of US dollars, except as indicated)

Note 18. Segment information (continued)

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	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

1999	**Western Siberia**	**European Russia**	**International**	**Elimination**	**Consolidated**
Sales					
Third parties	222	2,403	4,919	-	7,544
Inter-segment	1,139	2,710	24	(3,873)	-
Total sales	1,361	5,113	4,943	(3,873)	7,544
Operating expenses	412	1,831	4,252	(3,873)	2,622
Depletion, depreciation and amortization	338	187	73	-	598
Interest expense	4	114	74	-	192
Income taxes	23	243	9	-	275
Net income	611	553	(102)	-	1,062
Total assets	4,281	7,200	2,186	(1,164)	12,503
Capital expenditures	214	526	118	-	858

(Millions of US dollars, except as indicated)

This section provides unaudited supplemental information on oil and gas exploration and production activities of Group companies 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

I. Capitalized costs relating to oil and gas producing activities

As of December 31, 2001	**International**	**Russia**	**Total**
Unproved oil and gas properties	-	354	354
Proved oil and gas properties	868	19,855	20,723
Accumulated depreciation, depletion, and amortization	(141)	(11,868)	(12,009)
Net capitalized costs	727	8,341	9,068
Group's share of "equity method" affiliates' net capitalized costs	157	169	326
Net capitalized costs	884	8,510	9,394

As of December 31, 2000	**International**	**Russia**	**Total**
Unproved oil and gas properties	-	246	246
Proved oil and gas properties	657	17,020	17,677
Accumulated depreciation, depletion, and amortization	(104)	(11,127)	(11,231)
Net capitalized costs	553	6,139	6,692
Group's share of "equity method" affiliates' net capitalized costs	164	104	268
Net capitalized costs	717	6,243	6,960

(Millions of US dollars, except as indicated)

II. Costs incurred in oil and gas property acquisition, exploration, and development activities

Year ended December 31, 2001	**International**	**Russia**	**Total**
Acquisition of properties - proved	-	445	445
Acquisition of properties - unproved	-	310	310
Exploration costs	-	144	144
Development costs	246	1,399	1,645
Group's share of "equity method" affiliates' costs of property acquisition, exploration and development	49	65	114
Total costs incurred	295	2,363	2,658

Year ended December 31, 2000	**International**	**Russia**	**Total**
Acquisition of properties - proved	-	631	631
Acquisition of properties - unproved	-	32	32
Exploration costs	18	112	130
Development costs	279	536	815
Group's share of "equity method" affiliates' costs of property acquisition, exploration and development	35	34	69
Total costs incurred	332	1,345	1,677

Year ended December 31, 1999	**International**	**Russia**	**Total**
Acquisition of properties - proved	-	943	943
Acquisition of properties - unproved	-	2	2
Exploration costs	-	61	61
Development costs	56	271	327
Group's share of "equity method" affiliates' costs of property acquisition, exploration and development	40	24	64
Total costs incurred	96	1,301	1,397

III. Results of operations for oil and gas producing activities

Year ended December 31, 2001	**International**	**Russia**	**Total**
Revenue			
Sales	142	5,149	5,291
Transfers	-	3,139	3,139
	142	8,288	8,430
Production costs (excluding production taxes)	16	1,620	1,636
Exploratory expense	-	144	144
Depreciation, depletion, and amortization	49	557	606
Taxes other than income taxes	-	1,751	1,751
Related income taxes	20	1,451	1,471
Results of operations from producing activities (excluding corporate overhead and interest costs)	57	2,765	2,822
Group's share of "equity method" affiliates' results of operations for producing activities	46	33	79
Total results of operations for producing activities	103	2,798	2,901

(Millions of US dollars, except as indicated)

Year ended December 31, 2000	**International**	**Russia**	**Total**
Revenue			
Sales	284	6,531	6,815
Transfers	-	2,429	2,429
	284	8,960	9,244
Production costs (excluding production taxes)	30	1,199	1,229
Exploratory expense	18	112	130
Depreciation, depletion, and amortization	48	563	611
Taxes other than income taxes	2	674	676
Related income taxes	47	1,914	1,961
Results of operations from producing activities (excluding corporate overhead and interest costs)	139	4,498	4,637
Group's share of "equity method" affiliates' results of operations for producing activities	37	43	80
Total results of operations for producing activities	176	4,541	4,717

Year ended December 31, 1999	**International**	**Russia**	**Total**
Revenue			
Sales	71	3,755	3,826
Transfers	-	528	528
	71	4,283	4,354
Production costs (excluding production taxes)	26	651	677
Exploratory expense	-	61	61
Depreciation, depletion, and amortization	51	420	471
Taxes other than income taxes	1	448	449
Related income taxes	3	980	983
Results of operations from producing activities (excluding corporate overhead and interest costs)	(10)	1,723	1,713
Group's share of "equity method" affiliates' results of operations for producing activities	3	135	138
Total results of operations for producing activities	(7)	1,858	1,851

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 recoverable beyond the term of the lease or concession agreement which 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.

Group companies' estimated net proved oil and gas reserves and changes thereto for the years 2001, 2000 and 1999 are shown in the table set out below.

(Millions of US dollars, except as indicated)

	International		Russia		Total	
Proved Reserves:	Millions of barrels	Millions of tonnes	Millions of barrels	Millions of tonnes	Millions of barrels	Millions of tonnes
Oil equivalent						
January 1, 1999	376	51	10,242	1,397	10,618	1,448
Revisions of previous estimates	-	-	1,026	140	1,026	140
Purchase of hydrocarbons in place	-	-	1,314	179	1,314	179
Extensions and discoveries	-	-	187	26	187	26
Production	(7)	(1)	(472)	(64)	(479)	(65)
Sales of reserves	-	-	(197)	(27)	(197)	(27)
December 31, 1999	369	50	12,100	1,651	12,469	1,701
Revisions of previous estimates	277	38	(671)	(92)	(394)	(54)
Purchase of hydrocarbons in place	-	-	1,167	159	1,167	159
Extensions and discoveries	26	4	302	41	328	45
Production	(14)	(2)	(515)	(70)	(529)	(72)
Sales of reserves	-	-	(21)	(3)	(21)	(3)
December 31, 2000	658	90	12,362	1,686	13,020	1,776
Revisions of previous estimates	(12)	(1)	(13)	(2)	(25)	(3)
Purchase of hydrocarbons in place	-	-	3,033	414	3,033	414
Extensions and discoveries	3	-	741	101	744	101
Production	(11)	(2)	(521)	(71)	(532)	(73)
December 31, 2001	**638**	**87**	**15,602**	**2,128**	**16,240**	**2,215**
Group's share of the reserves of affiliates, accounted for using the "equity method" as at December 31, 1999	179	24	797	109	976	133
Group's share in the reserves of affiliates, accounted for using the "equity method" as at December 31, 2000	184	25	295	40	479	65
Group's share in the reserves of affiliates, accounted for using the "equity method" as at December 31, 2001	213	29	360	49	573	78
Minority's share, included in the above proved reserves as at December 31, 1999	-	-	41	6	41	6
Minority's share, included in the above proved reserves as at December 31, 2000	-	-	568	77	568	77
Minority's share, included in the above proved reserves as at December 31, 2001	-	-	1,510	206	1,510	206
Proved reserves, adjusted for minority interests:						
December 31, 1999	548	74	12,856	1,754	13,404	1,828
December 31, 2000	842	115	12,089	1,649	12,931	1,764
December 31, 2001	**851**	**116**	**14,452**	**1,971**	**15,303**	**2,087**
Proved developed reserves, adjusted for minority interests:						
December 31, 1999	79	11	7,894	1,077	7,973	1,088
December 31, 2000	196	27	8,417	1,148	8,613	1,175
December 31, 2001	**300**	**41**	**8,917**	**1,216**	**9,217**	**1,257**

(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**
As of December 31, 2001			
Future cash inflows	5,410	163,720	169,130
Future production and development costs	(2,180)	(97,755)	(99,935)
Future income tax expenses	(766)	(14,909)	(15,675)
Future net cash flows	2,464	51,056	53,520
Discount for estimated timing of cash flows (10% p.a.)	(1,743)	(34,337)	(36,080)
Discounted future net cash flows	721	16,719	17,440
Group's share of "equity method" affiliates' standardized measure of discounted future net cash flows	360	685	1,045
Minority share in discounted future net cash flows	-	1,362	1,362

	International	**Russia**	**Total**
As of December 31, 2000			
Future cash inflows	6,378	170,534	176,912
Future production and development costs	(2,276)	(90,698)	(92,974)
Future income tax expenses	(1,156)	(27,020)	(28,176)
Future net cash flows	2,946	52,816	55,762
Discount for estimated timing of cash flows (10% p.a.)	(2,064)	(33,463)	(35,527)
Discounted future net cash flows	882	19,353	20,235
Group's share of "equity method" affiliates' standardized measure of discounted future net cash flows	597	638	1,235
Minority share in discounted future net cash flows	-	921	921

(Millions of US dollars, except as indicated)

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

	2001	**2000**	**1999**
Discounted present value as at January 1	20,235	21,754	4,072
Purchase of oil and gas reserves	4,169	2,788	3,276
Sales and transfers of oil and gas produced, net of production costs	(4,872)	(7,280)	(3,185)
Net changes in prices and production costs estimates	(12,686)	608	20,649
Extensions, discoveries, and improved recovery, less related costs	1,045	797	467
Development costs incurred during the period	1,011	458	255
Revisions of previous quantity estimates	(295)	(952)	2,559
Net change in income taxes	5,334	(1,403)	(7,286)
Other changes	424	435	301
Accretion of discount	3,075	3,030	646
Discounted present value at December 31	**17,440**	**20,235**	**21,754**