OAO LUKOIL

CONSOLIDATED FINANCIAL STATEMENTS

(prepared in accordance with US GAAP)

As of December 31, 2003 and 2002
and for each of the years in the three year period
ended December 31, 2003

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, 2003 and 2002, 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, 2003. 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, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2003, the Company changed its method of accounting for asset retirement obligations.

KPMG Limited

KPMG Limited
Moscow, Russian Federation
June 21, 2004

OAO LUKOIL
Consolidated Balance Sheets
As of December 31, 2003 and 2002
(Millions of US dollars, unless otherwise noted)

	Note	2003	2002
Assets			
Current assets			
Cash and cash equivalents	3	1,435	1,252
Short-term investments		251	278
Accounts and notes receivable, net	5	3,790	2,511
Inventories	6	1,243	1,063
Prepaid taxes and other expenses		818	736
Other current assets		334	356
Assets held for sale	10	52	279
Total current assets		**7,923**	**6,475**
Investments	7	594	934
Property, plant and equipment	8	16,639	13,499
Deferred income tax assets	14	117	206
Goodwill and other intangible assets	9	523	399
Other non-current assets		778	488
Total assets		**26,574**	**22,001**
Liabilities and Stockholders' equity			
Current liabilities			
Accounts payable		1,564	1,293
Short-term borrowings and current portion of long-term debt	11	1,412	1,772
Customer deposits and other borrowings of banking subsidiaries	12	1,007	755
Taxes payable		943	640
Other current liabilities		345	337
Total current liabilities		**5,271**	**4,797**
Long-term debt	13, 17	2,392	1,666
Deferred income tax liabilities	14	497	261
Asset retirement obligations	8	210	-
Other long-term liabilities		249	397
Minority interest in subsidiary companies		483	880
Total liabilities		**9,102**	**8,001**
Stockholders' equity	16		
Common stock		15	15
Treasury stock, at cost		(435)	(428)
Additional paid-in capital		3,522	3,229
Retained earnings		14,371	11,186
Accumulated other comprehensive loss		(1)	(2)
Total stockholders' equity		**17,472**	**14,000**
Total liabilities and stockholders' equity		**26,574**	**22,001**

President of OAO LUKOIL
Alekperov V.Y.

Chief accountant of OAO LUKOIL
Khoba L.N.

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

OAO LUKOIL
Consolidated Statements of Income
For the years ended December 31, 2003, 2002 and 2001
(Millions of US dollars, except share data)

	Note	2003	2002	2001
Revenues				
Sales (including excise and export tariffs)	23	22,118	15,334	13,426
Equity share in income of affiliates	7	181	115	136
Total revenues		**22,299**	**15,449**	**13,562**
Costs and other deductions				
Operating expenses		(2,546)	(2,403)	(2,584)
Cost of purchased crude oil and petroleum products		(5,909)	(2,693)	(2,087)
Transportation expenses		(2,052)	(1,414)	(919)
Selling, general and administrative expenses		(1,800)	(1,313)	(1,375)
Depreciation, depletion and amortization		(920)	(824)	(886)
Taxes other than income taxes	14	(2,456)	(1,972)	(1,010)
Excise and export tariffs		(2,954)	(1,996)	(1,456)
Exploration expense		(136)	(89)	(144)
Gain from sale of interest in Azeri Chirag Guneshli	10	1,130	-	-
Loss on disposal and impairment of assets		(69)	(83)	(153)
Income from operating activities		**4,587**	**2,662**	**2,948**
Interest expense		(273)	(222)	(257)
Interest and dividend income		139	160	146
Currency translation gain (loss)		148	40	(33)
Other non-operating income		11	11	31
Minority interest		(36)	(69)	(52)
Income before income taxes		**4,576**	**2,582**	**2,783**
Current income taxes		(939)	(834)	(861)
Deferred income taxes		(68)	95	187
Total income tax expense	14	**(1,007)**	**(739)**	**(674)**
Income before cumulative effect of change in accounting principle		**3,569**	**1,843**	**2,109**
Cumulative effect of change in accounting principle, net of tax		132	-	-
Net income		**3,701**	**1,843**	**2,109**
Dividends declared on preferred stock		-	-	(157)
Net income available for common stockholders		**3,701**	**1,843**	**1,952**

Per share of common stock (US dollars):

	Note	2003	2002	2001
Income before cumulative effect of change in accounting principle				
Basic	16	4.36	2.26	2.68
Diluted	16	4.30	2.26	2.66
Net Income				
Basic	16	4.52	2.26	2.68
Diluted	16	4.45	2.26	2.66

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, 2003, 2002 and 2001
(Millions of US dollars, unless otherwise noted)

	2003		2002		2001	
	Stockholders' equity	Comprehen-sive income	Stockholders' equity	Comprehen-sive income	Stockholders' equity	Comprehen-sive income
Common stock						
Balance at January 1	15		15		14	
Conversion of preferred stock into common stock	-		-		1	
Outstanding at December 31	**15**		**15**		**15**	
Preferred stock						
Balance at January 1	-		-		1	
Conversion of preferred stock into common stock	-		-		(1)	
Outstanding at December 31	**-**		**-**		**-**	
Treasury stock						
Balance at January 1	(428)		(403)		(376)	
Stock purchased	(368)		(326)		(185)	
Stock issued	361		301		158	
Balance at December 31	**(435)**		**(428)**		**(403)**	
Additional paid-in capital						
Balance at January 1	3,229		3,044		2,895	
Premium on non-outstanding shares issued	38		170		147	
Proceeds from issuance of treasury stock in excess of carrying amount	255		15		2	
Balance at December 31	**3,522**		**3,229**		**3,044**	
Retained earnings						
Balance at January 1	11,186	-	9,738	-	7,994	-
Net income	3,701	3,701	1,843	1,843	2,109	2,109
Dividends on preferred stock	-	-	-	-	(157)	-
Dividends on common stock	(516)	-	(395)	-	(208)	-
Balance at December 31	**14,371**		**11,186**		**9,738**	
Accumulated other comprehensive loss, net of tax						
Balance at January 1	(2)		(9)		(9)	
Foreign currency translation adjustment	1	1	(7)	(7)	14	14
Minimum pension liability adjustment	-	-	14	14	(14)	(14)
Balance at December 31	**(1)**		**(2)**		**(9)**	
Total comprehensive income for the year		3,702		1,850		2,109
Total stockholders' equity as of December 31	**17,472**		**14,000**		**12,385**	

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

	Share activity		
	2003	**2002**	**2001**
	(millions of shares)	**(millions of shares)**	**(millions of shares)**
Common stock, issued			
Balance at January 1	850	850	738
Issuance of common stock	-	-	35
Conversion of preferred stock into common stock (1 preference share into 1 common share)	-	-	77
Balance at December 31	**850**	**850**	**850**
Preferred stock			
Balance at January 1	-	-	77
Conversion of preferred stock into common stock	-	-	(77)
Balance at December 31	**-**	**-**	**-**
Treasury stock			
Balance at January 1	(27)	(26)	(23)
Purchase of treasury stock	(19)	(21)	(17)
Sales of treasury stock	20	20	14
Balance at December 31	**(26)**	**(27)**	**(26)**

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, 2003, 2002 and 2001
(Millions of US dollars)

	Note	2003	2002	2001
Cash flows from operating activities				
Net income		**3,701**	**1,843**	**2,109**
Adjustments for non-cash items:				
Cumulative effect of change in accounting principle		(132)	-	-
Depreciation, depletion and amortization		920	824	886
Equity share in income of affiliates		(122)	(100)	(136)
Gain from sale of interest in Azeri Chirag Guneshli	10	(1,130)	-	-
Loss on disposal and impairment of assets		69	83	153
Deferred income taxes		68	(95)	(187)
Non-cash currency translation loss (gain)		17	(21)	24
Non-cash investing activities		(64)	(72)	(96)
All other items – net		80	78	181
Changes in operating assets and liabilities:				
Accounts and notes receivable		(797)	(125)	931
Short-term loans receivable of banking subsidiaries		(223)	39	(95)
Net movements of short-term borrowings of banking subsidiaries		341	171	208
Inventories		(153)	(201)	(56)
Accounts payable		186	(273)	(1,077)
Taxes payable		284	30	109
Other current assets and liabilities		(109)	215	(281)
Net cash provided by operating activities		**2,936**	**2,396**	**2,673**
Cash flows from investing activities				
Capital expenditures		(2,881)	(2,072)	(2,521)
Proceeds from sale of property, plant and equipment		62	34	45
Purchases of investments		(459)	(302)	(314)
Proceeds from sale of investments		374	118	228
Proceeds from sale of interest in Azeri Chirag Guneshli	10	1,337	-	-
Acquisitions of subsidiaries, net of cash acquired		(1,225)	(168)	(499)
Net cash used in investing activities		**(2,792)**	**(2,390)**	**(3,061)**
Cash flows from financing activities				
Net movements of short-term borrowings		220	203	121
Proceeds from issuance of long-term debt		1,445	879	938
Principal payments of long-term debt		(1,124)	(579)	(349)
Dividends paid		(467)	(423)	(244)
Proceeds from issuance of common stock		-	18	-
Purchase of treasury stock		(368)	(326)	(185)
Proceeds from sale of treasury stock		290	316	158
Other – net		-	8	32
Net cash (used in) provided by financing activities		**(4)**	**96**	**471**
Effect of exchange rate changes on cash and cash equivalents		43	(20)	(50)
Net increase in cash and cash equivalents		**183**	**82**	**33**
Cash and cash equivalents at beginning of year		1,252	1,170	1,137
Cash and cash equivalents at end of year	3	**1,435**	**1,252**	**1,170**

Supplemental disclosures of cash flow information				
Interest paid		320	285	276
Income taxes paid		895	875	833

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

Note 1. Organization and environment

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

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

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

Business and economic environment

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

The accompanying financial statements reflect management's assessment of the impact of the business environment in the countries in which the Group operates on the operations and the financial position of the Group. The future business environments may differ from management's assessment.

Basis of preparation

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

Note 2. Summary of significant accounting policies

Principles of consolidation

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

Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying value of oil and gas properties, goodwill impairment assessment, asset retirement obligations, deferred income taxes, valuation of financial instruments, and obligations related to employee benefits. Eventual actual amounts could differ from those estimates.

Note 2. Summary of significant accounting policies (continued)

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

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

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

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

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

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

As of December 31, 2003, 2002 and 2001, exchange rates of 29.45, 31.78 and 30.14 Russian rubles, respectively to the US dollar have been used for translation purposes.

The Russian ruble and other currencies of republics of the former Soviet Union are not readily 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.

Note 2. Summary of significant accounting policies (continued)

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 using the original discount rate.

Inventories

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

Investments

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

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

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

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

Property, plant and equipment

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

Depreciation, depletion and amortization of capitalized costs of oil and gas properties is calculated using the unit-of-production method based upon proved reserves for the cost of property acquisitions and proved developed reserves for exploration and development costs.

Note 2. Summary of significant accounting policies (continued)

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 other intangible assets

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

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

Impairment of long-lived assets

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

Deferred income taxes

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

Note 2. Summary of significant accounting policies (continued)

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

Interest-bearing borrowings

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

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

Pension benefits

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

Treasury stock

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

Earnings per share

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

Contingencies

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

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

Note 2. Summary of significant accounting policies (continued)

Environmental expenditures

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

Use of derivative instruments

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

Cumulative effect of change in accounting principle

Effective January 1, 2003, the Group adopted SFAS No. 143, *"Accounting for Asset Retirement Obligations."* This new accounting standard applies to legal obligations associated with the retirement of tangible long-lived assets. SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. Subsequently, the liability is accreted for the passage of time and the related asset is depreciated over its estimated useful life.

In the past, the Group estimated costs of retirement of tangible oil and gas assets and included them as a component of depreciation, depletion and amortization in accordance with SFAS No. 19, *"Financial Accounting and Reporting by Oil and Gas Producing Companies."* The adoption of SFAS No. 143 affected the accounting and reporting of the assets, liabilities and expenses related to these obligations. Upon adoption, the Group recorded a cumulative-effect adjustment resulting in an increase to net income of $132 million (net of income tax of $46 million), including the Group's share of the effect of adoption by its equity affiliates. The effect of adoption also included an increase of net property, plant and equipment of $330 million, minority interest of $12 million, non-current deferred income tax assets and liabilities of a net $46 million and an increase in the asset retirement obligation of $140 million.

The following table shows what the Group's net income and net income per share would have been for the years ended December 31, 2002 and 2001 if the provisions of SFAS No. 143 had been applied in those periods, compared with net income and net income per share recorded during year ended December 31, 2003.

(Millions of US dollars, except as indicated)

Note 2. Summary of significant accounting policies (continued)

	Year ended December 31, 2003	Year ended December 31, 2002	Year ended December 31, 2001
Net income available for common stockholders			
Reported net income	3,701	1,843	1,952
Cumulative effect of adoption of SFAS No. 143, net of tax	(132)	-	-
SFAS No. 19 depletion for abandonment and restoration, net of tax	-	46	43
Pro-forma SFAS No. 143 accretion and depletion expenses, net of tax	-	(22)	(18)
Adjusted net income available for common stockholders	**3,569**	**1,867**	**1,977**
Per share of common stock (US dollars):			
Reported net income	4.52	2.26	2.68
Cumulative effect of adoption of SFAS No. 143, net of tax	(0.16)	-	-
SFAS No. 19 depletion for abandonment and restoration, net of tax	-	0.06	0.06
Pro-forma SFAS No. 143 accretion and depletion expenses, net of tax	-	(0.03)	(0.02)
Adjusted net income - basic	4.36	2.29	2.72
Reported net income	4.45	2.26	2.66
Cumulative effect of adoption of SFAS No. 143, net of tax	(0.15)	-	-
SFAS No. 19 depletion for abandonment and restoration, net of tax	-	0.06	0.06
Pro-forma SFAS No. 143 accretion and depletion expenses, net of tax	-	(0.03)	(0.02)
Adjusted net income – diluted	4.30	2.29	2.70

The following is a summary of the asset retirement obligation assuming the provisions of SFAS No. 143 had been adopted as of January 1, 2001.

Asset retirement obligation as of:

January 1, 2001	$125 million;
December 31, 2001	$163 million;
December 31, 2002	$199 million.

Recent accounting pronouncements

In January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46 *"Consolidation of Variable Interest Entities,"* which was amended in December 2003 when FASB Interpretation No. 46 (revised in December 2003) *"Consolidation of Variable Interest Entities"* ("FIN 46 R") was issued. FIN 46 R addresses when a business enterprise should consolidate another entity in which it has a controlling financial interest through means other than voting interests. The provisions of FIN 46 R must be applied for variable interest entities commonly referred to as "special purpose entities" by December 31, 2003. For all other variable interest entities, implementation is required by March 31, 2004.

The Group is currently reviewing its existing financial arrangements to identify any that may qualify as variable interest entities. There is a reasonable possibility that certain joint ventures in which the Group has an interest might be variable interest entities. The variable interests arise primarily because of certain guarantees extended by the Group to the joint ventures, which are disclosed in Note 19 “Financial guarantees.” However, the Group does not expect any significant impact on net income if it is required to consolidate any of these possible variable interest entities because the Group’s share of net income in these entities is already included in the Group’s consolidated statements of income. The potential increase to the Group's assets and liabilities is also not expected to be significant.

(Millions of US dollars, except as indicated)

Note 2. Summary of significant accounting policies (continued)

Comparative amounts

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

Note 3. Cash and cash equivalents

	As of December 31, 2003	As of December 31, 2002
Cash held in Russian rubles	258	171
Cash held in other currencies	510	645
Cash held in banking subsidiaries in Russian rubles	437	262
Cash held in banking subsidiaries in other currencies	230	174
Total cash and cash equivalents	**1,435**	**1,252**

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, 2003	Year ended December 31, 2002	Year ended December 31, 2001
Net non-cash investing activity	64	72	96
Settlement of bond liability with the Company's common stock	395	152	-
Total non-cash transactions	**459**	**224**	**96**

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

	Year ended December 31, 2003	Year ended December 31, 2002	Year ended December 31, 2001
Net cash used in investing activity	2,792	2,390	3,061
Net non-cash investing activity	64	72	96
Total investing activity	**2,856**	**2,462**	**3,157**

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

Note 5. Accounts and notes receivable

	As of December 31, 2003	As of December 31, 2002
Trade accounts and notes receivable (net of provisions of $90 million and $57 million as of December 31, 2003 and 2002, respectively)	1,829	1,354
Current VAT and excise recoverable	1,085	645
Short-term loans receivable of banking subsidiaries (net of provisions of $26 million and $15 million as of December 31, 2003 and 2002, respectively)	549	266
Other current accounts receivable (net of provisions of $63 million and $28 million as of December 31, 2003 and 2002, respectively)	327	246
Total accounts and notes receivable	**3,790**	**2,511**

(Millions of US dollars, except as indicated)

Note 6. Inventories

	As of December 31, 2003	As of December 31, 2002
Crude oil and petroleum products	789	630
Materials for extraction and drilling	174	135
Materials and supplies for refining	40	65
Other goods, materials and supplies	240	233
Total inventories	**1,243**	**1,063**

Note 7. Investments

	As of December 31, 2003	As of December 31, 2002
Investments in "equity method" affiliates and joint ventures	384	447
Long-term loans given by non-banking subsidiaries	116	75
Cash security deposit in a bank	-	200
Other long-term investments	94	212
Total long-term investments	**594**	**934**

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 equity interests, 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, 2003		Year ended December 31, 2002		Year ended December 31, 2001	
	Total	Group's share	Total	Group's share	Total	Group's share
Revenues	1,676	757	1,516	660	1,696	694
Income before income taxes	444	235	333	171	436	197
Less income taxes	(106)	(54)	(109)	(56)	(115)	(61)
Net income	**338**	**181**	**224**	**115**	**321**	**136**

	As of December 31, 2003		As of December 31, 2002	
	Total	Group's share	Total	Group's share
Current assets	659	289	610	246
Property, plant and equipment	2,180	1,146	2,117	1,044
Other non-current assets	52	24	196	85
Total assets	2,891	1,459	2,923	1,375
Short-term debt	374	159	121	58
Other current liabilities	310	143	381	137
Long-term debt	1,449	766	1,437	723
Other non-current liabilities	16	7	25	10
Net assets	**742**	**384**	**959**	**447**

(Millions of US dollars, except as indicated)

Note 8. Property, plant and equipment and asset retirement obligations

	At cost		Net	
	As of December 31, 2003	**As of December 31, 2002**	**As of December 31, 2003**	**As of December 31, 2002**
Exploration and Production:				
Western Siberia	12,579	11,680	5,266	4,354
European Russia	10,695	9,287	5,932	4,516
International	1,035	700	964	675
Total	24,309	21,667	12,162	9,545
Refining, Marketing, Distribution and Chemicals:				
Western Siberia	52	46	41	33
European Russia	5,170	4,905	3,060	2,874
International	2,121	1,775	1,127	833
Total	7,343	6,726	4,228	3,740
Other:				
Western Siberia	132	133	64	71
European Russia	207	151	168	113
International	42	58	17	30
Total	381	342	249	214
Total property, plant and equipment	**32,033**	**28,735**	**16,639**	**13,499**

As described in Note 2, effective January 1, 2003, the Group adopted SFAS No. 143 and began recording asset retirement obligations for estimated dismantlement, abandonment and restoration costs of property, plant and equipment in which a legal obligation exists. In accordance with SFAS No. 143, property, plant and equipment listed above include asset retirement costs associated with these asset retirement obligations.

As of December 31, 2003, the asset retirement obligation amounted to $220 million, of which $10 million was included in “Other current liabilities.” Changes in the asset retirement obligation during the year ended December 31, 2003 primarily related to new liabilities incurred, accretion of the asset retirement obligation, changes in foreign exchange and reclassification of a liability in the amount of $59 million relating to the retirement of long-lived assets from “Other long-term liabilities.”

In 2001, the FASB issued SFAS No. 141, *“Business Combinations,”* and SFAS No. 142 *“Goodwill and Other Intangible Assets,”* which became effective on July 1, 2001, and January 1, 2002, respectively. Currently, the Emerging Issues Task Force (“EITF”) is considering the issue of whether, under the provisions of SFAS Nos. 141 and 142, drilling and mineral use rights should be accounted for and classified as intangible assets on the balance sheet of companies in the oil and gas industry. Historically, the Group has capitalized the cost of drilling and mineral use rights and reported these assets as part of tangible exploration and production property, plant and equipment.

If the EITF ultimately determines that SFAS Nos. 141 and 142 require oil and gas companies to classify mineral rights as separate intangible assets, the amounts included in tangible exploration and production property, plant and equipment on the balance sheet that would be reclassified are not expected to exceed $226 million and $158 million, net of accumulated depreciation, depletion and amortization, as of December 31, 2003 and 2002, respectively. The Group management believes this reclassification would not affect total assets, net worth or cash flows of the Group.

Amounts to be reclassified will be impacted by the final provisions of the EITF consensus. The ultimate reclassification amount and impact on the Group’s financial statements may be materially different from management’s current assessment.

(Millions of US dollars, except as indicated)

Note 9. Goodwill and other intangible assets

The carrying value of goodwill and other intangible assets as of December 31, 2003 and 2002 was as follows:

	As of December 31, 2003	As of December 31, 2002
Amortized intangible assets		
Software	105	56
Licenses and other assets	31	26
Nonamortized pension intangible assets	-	24
Goodwill	387	293
Total goodwill and other intangible assets	**523**	**399**

The change in the carrying amount of goodwill for the year ended December 31, 2003 was as follows:

Balance as of January 1, 2003	293
Goodwill acquired during the year	94
Balance as of December 31, 2003	**387**

All goodwill amounts relate to the refining, marketing and distribution segment. The increase in goodwill during the period relates to the acquisition of a Serbian marketing and distribution company (Note 18 “Business combinations”).

In January 2002, the Group discontinued the amortization of goodwill in accordance with SFAS No. 142. Goodwill amortization recorded during the year ended December 31, 2001 was $21 million. The Group performed the annual goodwill impairment test as of December 31, 2003 and no goodwill impairment was indicated.

Note 10. Assets held for sale

In December 2003, a Group company entered into a contract to sell 5 tanker vessels for $52 million to a related party, which was controlled by a member of the Group’s management. As of December 31, 2003, the Group classified these assets with a net book value of $52 million as held for sale in the consolidated balance sheet. The sale was completed in February 2004.

On December 20, 2002, a Group company entered into a contract with INPEX Corporation, a Japanese company, to sell its 10% interest in a PSA operated by the Azerbaijan International Operating Company. The purpose of this PSA is to explore and develop the Azeri and Chirag fields and the deep water portion of the Guneshli field in the Azeri sector of the Caspian Sea. The related assets were classified as held for sale as of December 31, 2002. The sale was completed on April 28, 2003 for net $1,337 million cash, resulting in the recognition of a net gain of $1,130 million during 2003. This gain is included in the “Exploration and production” operating segment and “International” geographical segment in Note 23 “Segment information.”

Note 11. Short-term borrowings and current portion of long-term debt

	As of December 31, 2003	As of December 31, 2002
Short-term borrowings	1,001	740
Current portion of long-term debt	411	1,032
Total short-term borrowings and current portion of long-term debt	**1,412**	**1,772**

Short-term borrowings are loans from various third parties and are generally secured by export sales, property, plant and equipment and securities. The weighted-average interest rate on short-term borrowings from third parties was 4.4% per annum and 6.0% per annum as of December 31, 2003 and 2002, respectively.

(Millions of US dollars, except as indicated)

Note 12. Customer deposits and other borrowings of banking subsidiaries

Group banking subsidiaries had customer deposits and other borrowings of $1,007 million and $755 million with weighted average interest rates of 4.1% and 3.8% as of December 31, 2003 and 2002, respectively.

Note 13. Long-term debt

	As of December 31, 2003	As of December 31, 2002
Long-term loans and borrowings from third parties (including loans from banks in the amount of $1,604 million and $1,510 million as of December 31, 2003 and 2002, respectively)	2,322	1,702
Long-term loans and borrowings from related parties	-	1
1% Convertible US dollar bonds, maturing 2003	-	455
3.5% Convertible US dollar bonds, maturing 2007	366	351
Variable interest unsecured Russian ruble bonds, maturing 2003	-	94
Capital lease obligation	115	95
Total long-term debt	2,803	2,698
Current portion of long-term debt	(411)	(1,032)
Total non-current portion of long-term debt	**2,392**	**1,666**

Long-term loans and borrowings

Long-term loans and borrowings are primarily repayable in US dollars, maturing from 2004 through 2027 and are generally secured by export sales, property, plant and equipment and securities. The weighted-average interest rate on long-term loans and borrowings from third parties was 5.15%, and 5.58% per annum as of December 31, 2003 and 2002, respectively.

A Group company has a revolving credit facility with International Bank of Reconstruction and Development that provides borrowings up to $99 million. Borrowings under this credit facility bear interest at floating rates from 3.25% to 7.25%. At December 31, 2003, $60 million was outstanding under this credit facility.

A Group company has a revolving credit facility with Chase Manhattan Bank that provides borrowings up to $89 million. Borrowings under this credit facility bear interest at LIBOR plus 2%. At December 31, 2003, $30 million was outstanding under this credit facility.

The Group has revolving credit facilities with a number of other banks that provide borrowings up to $439 million. The weighted-average interest rate under these credit facilities was 8.59% per annum as of December 31, 2003. At December 31, 2003 amounts outstanding under these credit facilities were $241 million.

The Company has a loan agreement with ABN AMRO Bank that provides borrowings up to $765 million. Borrowings under this loan in amount $465 million bear interest at LIBOR plus 2%. The remaining $300 million bear interest at LIBOR plus 2.5%. At December 31, 2003 the amount outstanding under this loan was $765 million.

The Company has outstanding obligations of $75 million under an agreement dated September 7, 2000 with the European Bank for Reconstruction and Development (“EBRD”). The maximum amount of borrowings available under the loan is $150 million. 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, 2003 and 2002 the amount of such security was nil.

Note 13. Long-term debt (continued)

As of December 31, 2003, the Group has other fixed term loans with a number of banks and organizations in the total amount of $1,151 million, maturing from 2004 through 2027. The weighted average interest rate under these loans was 5.39% per annum as of December 31, 2003.

Convertible US dollar bonds

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

During 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 were convertible into GDRs up to the maturity date. The GDRs were exchangeable into four shares of common stock of the Company. Bonds not converted by the maturity date were required to be redeemed for cash. The redemption price at maturity was 153.314% of the face value in respect of these bonds. A Group company could redeem the bonds for cash prior to maturity, subject to certain restrictions and early redemption charges. The carrying amount of the bonds was accreted to their redemption value with the accreted amount charged to the consolidated statement of income.

During August 2003, related party bondholders converted 222,225 bonds into 5 million shares of common stock of the Company. By the maturity date, the remaining bonds had been repurchased on the open market or were redeemed and a portion held by related parties was surrendered.

On November 29, 2002, a Group company issued 350,000 3.5% convertible bonds with a face value of $1,000 each, maturing on November 29, 2007, and exchangeable for 11.948 GDRs of the Company per bond. The bonds are convertible into GDRs on or after January 9, 2003 up to the maturity dates. The GDRs are exchangeable into four shares of common stock of the Company. Bonds not converted by the maturity date must be redeemed for cash. The redemption price at maturity will be 120.53% of the face value in respect of these bonds. A Group company may redeem the bonds for cash prior to maturity, subject to certain restrictions and early redemption charges. The carrying amount of the bonds is being accreted to their redemption value with the accreted amount being charged to the consolidated statement of income.

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

Russian ruble bonds

During 1999, the Company issued three million variable interest rate Russian ruble bonds with a face value of 1,000 Russian rubles each, maturing on August 13, 2003. The bonds were unsecured and bore interest at 6% per annum adjusted for Russian ruble to dollar devaluation.

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

Maturities of long-term debt

Annual maturities of total long-term debt during the next five years, including the portion classified as current, are $411 million in 2004, $415 million in 2005, $484 million in 2006, $686 million in 2007, $265 million in 2008 and $542 million thereafter.

(Millions of US dollars, except as indicated)

Note 14. Taxes

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

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

In August 2001, legislation was enacted that changed the income tax rates in the Russian Federation for 2002 and later years. Under this legislation, operations in the Russian Federation are subject to Federal and city tax rates that total 9.5% and a regional tax rate that varies from 10.5% to 14.5% at the discretion of the individual regional administration. For 2003 and 2002, substantially all of the Group's operations in Russia were subject to a combined statutory tax rate of 24%. The aforementioned legislation also eliminated certain tax incentives, including investment tax credits.

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

As a result of taxation legislation changes in the area of Mineral Extraction and Excise Taxes, Capital Investment Concessions and Concessionary Rate Regimes, most of the concessionary rates and allowances available to the Group during 2001 were no longer available during 2002 and 2003.

There are not currently, and have not been during the three years ended December 31, 2003, any provisions in the taxation legislation of the Russian Federation to permit the Group to reduce taxable profits in a Group company by offsetting tax losses in another Group company against such profits. Tax losses of a Group company in the Russian Federation may, however, be used fully or partially to offset taxable profits in the same company in any of the ten years following the year of loss, subject to the restriction that no more than 30% of the taxable profit in any given year can be reduced by loss relief.

Domestic and foreign components of income before income taxes were:

	Year ended December 31, 2003	**Year ended December 31, 2002**	**Year ended December 31, 2001**
Domestic	3,298	2,292	2,616
Foreign	1,278	290	167
Income before income taxes	**4,576**	**2,582**	**2,783**

Domestic and foreign components of income taxes were:

	Year ended December 31, 2003	**Year ended December 31, 2002**	**Year ended December 31, 2001**
Current			
Domestic	883	821	849
Foreign	56	13	12
Current income tax expense	939	834	861
Deferred			
Domestic	49	(67)	(207)
Foreign	19	(28)	20
Deferred income tax expense (benefit)	68	(95)	(187)
Total income tax expense	**1,007**	**739**	**674**

(Millions of US dollars, except as indicated)

Note 14. Taxes (continued)

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

	Year ended December 31, 2003	Year ended December 31, 2002	Year ended December 31, 2001
Income before income taxes	4,576	2,582	2,783
Notional income tax at Russian statutory rates	1,098	620	974
Increase (reduction) in income tax due to:			
Non-deductible items	168	155	191
Domestic and foreign rate differences	(18)	(77)	(233)
Non-taxable gain on sale of interest in Azeri Chirag Guneshli	(271)	-	-
Foreign currency effect	3	5	8
Effect of changes in tax rate	-	-	19
Investment tax credits	-	-	(325)
Change in valuation allowance	(1)	(25)	39
Other	28	61	1
Total income tax expense	**1,007**	**739**	**674**

Taxes other than income taxes were:

	Year ended December 31, 2003	Year ended December 31, 2002	Year ended December 31, 2001
Unified extraction tax	1,966	1,472	-
Royalty tax	-	-	347
Mineral replacement tax	-	-	215
Road users' tax	-	126	100
Social taxes and contributions	257	198	201
Property tax	139	101	83
Other taxes and contributions	94	75	64
Taxes other than income taxes	**2,456**	**1,972**	**1,010**

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

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

	As of December 31, 2003	As of December 31, 2002
Other current assets	76	98
Deferred income tax assets – non-current	117	206
Other current liabilities	(15)	(13)
Deferred income tax liabilities – non-current	(497)	(261)
Net deferred income tax (liability) asset	**(319)**	**30**

(Millions of US dollars, except as indicated)

Note 14. Taxes (continued)

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

	As of December 31, 2003	**As of December 31, 2002**
Accounts receivable	46	48
Long-term liabilities	97	155
Inventories	19	20
Property, plant and equipment	56	55
Accounts payable	31	56
Long-term investments	4	16
Operating loss carry forward	71	55
Other	17	30
Total gross deferred income tax assets	341	435
Less valuation allowance	(40)	(41)
Deferred income tax assets	**301**	**394**
Property, plant and equipment	(518)	(259)
Accounts payable	(3)	(9)
Accounts receivable	(13)	(10)
Long-term liabilities	(19)	-
Inventories	(25)	(21)
Long-term investments	(37)	(24)
Other	(5)	(41)
Deferred income tax liabilities	**(620)**	**(364)**
Net deferred income tax (liability) asset	**(319)**	**30**

As of December 31, 2003, retained earnings of foreign subsidiaries included $2,632 million for which deferred taxation has not been provided because remittance of the earnings has been indefinitely postponed through reinvestment and, as a result, such amounts are considered to be permanently invested. The amount of deferred tax liability on this amount is not practicable to calculate.

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

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred income tax assets are deductible, management believes it is more likely than not that Group companies will realize the benefits of the deductible temporary differences and loss carry forwards, net of existing valuation allowances as of December 31, 2003 and 2002.

As of December 31, 2003, the Group had operating loss carry forwards of $276 million of which $3 million expire during 2008, $76 million expire during 2010, $183 million expire during 2013 and $14 million have indefinite carry forward.

(Millions of US dollars, except as indicated)

Note 15. Pension benefits

The Company sponsors a post employment and post retirement benefits program. The primary component of the post employment and postretirement benefits program is a defined benefit pension plan that covers the majority of the Group's employees. This plan is administered by a non-state pension fund, LUKOIL-GARANT, and provides pension benefits primarily based on years of service and final remuneration levels. The Company also provides several long-term employee benefits such as death-in-service benefit and lump-sum payments upon retirement of a defined benefit nature and other defined benefits to certain old age and disabled pensioners who have not vested any pensions under the pension plan.

In December 2003, the Company took the decision to replace the pension plan with a new plan. The new plan will primarily consist of a defined contribution plan enabling employees to contribute a portion of their salary to the plan and to receive matching contributions from the Company of up to 7% of their annual salary. Employees will also have the right to receive upon retirement the benefits accumulated under the previous pension plan. These benefits have been fixed and included in the benefit obligation as of December 31, 2003. The amount was determined primarily based on a formula including past pensionable service and relative salaries as of December 31, 2003. The Company has recorded a gain of $53 million during 2003 as a result of this curtailment.

The Company uses December 31 as the measurement date for its post employment and post retirement benefits program. An independent actuary has assessed the benefit obligations and the fair value of plan assets as of December 31, 2003 and 2002.

The following table provides information about the benefit obligations, plan assets and actuarial assumptions used as of December 31, 2003 and 2002. The benefit obligations below represent the projected benefit obligation of the pension plan. The accumulated benefit obligation, which differs from the projected benefit obligation due to the former not including assumptions about future compensation levels, was $141 million and $202 million as of December 31, 2003 and 2002, respectively.

	Year ended December 31, 2003	**Year ended December 31, 2002**
Benefit obligations		
Benefit obligations at January 1	228	367
Effect of exchange rate changes	15	(17)
Service cost	5	10
Interest cost	34	52
Plan amendments	(6)	(41)
Actuarial gain	(7)	(136)
Benefits paid	(10)	(7)
Curtailment gain	(103)	-
Benefit obligations at December 31	**156**	**228**
Plan assets		
Fair value of plan assets at January 1	41	33
Effect of exchange rate changes	4	(2)
Return on plan assets	7	7
Employer contributions	13	10
Benefits paid	(10)	(7)
Fair value of plan assets at December 31	**55**	**41**
Funded status	(101)	(187)
Unamortized prior service cost	52	121
Unrecognized actuarial gain	(78)	(71)
Net amount recognized	**(127)**	**(137)**

(Millions of US dollars, except as indicated)

Note 15. Pension benefits (continued)

	Year ended December 31, 2003	Year ended December 31, 2002
Amounts recorded in the consolidated balance sheets were:		
Accrued benefit liabilities	(127)	(161)
Intangible assets	-	24
Net amount recognized	**(127)**	**(137)**

	As of December 31, 2003	As of December 31, 2002
Assumptions:		
Discount rate	9.2%	13.3%
Expected return on plan assets	9.4%	17.2%
Rate of compensation increase	9.2%	15.0%

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.

The pension fund is funded on a discretionary basis through an account, which is held in trust with LUKOIL-GARANT. LUKOIL-GARANT does not allocate separately identifiable assets to the Group or its other third party clients. All funds from the account and individual pension accounts are managed as a pool of investments.

The asset allocation of the investment portfolio maintained by LUKOIL-GARANT for the Group and its clients follows:

Type of assets	**As of December 31, 2003**	**As of December 31, 2002**
Shares of OAO LUKOIL	1%	34%
Equity securities of Russian issuers	7%	7%
Russian municipal bonds	2%	5%
Russian corporate bonds	34%	23%
Promissory notes of Russian issuers	47%	28%
Other assets	9%	3%
	100%	100%

The investment strategy employed by LUKOIL-GARANT includes an overall goal to attain a maximum investment return, while guaranteeing a minimum annual return of 5%. The strategy is to invest with a medium-term perspective while maintaining a level of liquidity through proper allocation of investment assets. Investment policies include rules and limitations to avoid concentrations of investments.

The investment portfolio is primarily comprised of two types of investments: securities with fixed yield and equity securities. The securities with fixed yield include mainly high yield corporate bonds and promissory notes of banks with low and medium risk ratings. Maturities range from one to three years.

(Millions of US dollars, except as indicated)

Note 15. Pension benefits (continued)

The following table details the targeted investment mix for 2004 and the maximum limits on investment type.

Type of investment	2004 Target Allocation	Maximum Allocation Allowed
Russian corporate bonds	25%	50%
Promissory notes of Russian issuers	45%	50%
Equity securities of Russian issuers	25%	50%
Other, including bank deposits	5%	50%
	100%	

Components of net periodic benefit cost were as follows:

	Year ended December 31, 2003	Year ended December 31, 2002	Year ended December 31, 2001
Service cost	5	10	8
Interest cost	34	52	16
Less expected return on plan assets	(7)	(6)	(6)
Amortization of prior service cost	19	22	5
Actuarial (gain) loss	(4)	4	(3)
Curtailment gain	(53)	-	-
Total net periodic benefit cost	**(6)**	**82**	**20**

Total employer contributions for 2004 are expected to be $17 million.

Note 16. Stockholders' equity

Dividends and dividend limitations

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

The Company's net profits were 48,042 million Russian rubles, 47,538 million Russian rubles and 20,987 million Russian rubles, respectively for 2003, 2002 and 2001, pursuant to the statutory financial statements, which at the US dollar exchange rates as of December 31, 2003, 2002 and 2001 amounted to $1,631 million, $1,496 million and $696 million, respectively.

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

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

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

Note 16. Stockholders' equity (continued)

Share capital

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 and exchanged 18,431,061 of shares for shares of OAO Arkhangelskgeoldobycha ("AGD") and for minority interest shareholdings of OAO LUKOIL-Ukhtaneftepererabotka and OAO LUKOIL-Kominefteproduct (Note 18 "Business combinations") and sold 16,568,939 shares to LUKinter Finance B.V., a Group company. The results of these issues were registered by the Russian Federal Commission for Securities on April 27 and October 9, 2001, respectively.

During 2001, the Company issued 2,780,525 shares (included in the 18,431,061 shares disclosed above) to LUKOIL Finance Limited, a Group company, in exchange for its 15.7% of the shares in AGD (Note 18 "Business combinations"). These shares and the 16,568,939 shares sold to LUKinter Finance B.V. were held by these subsidiaries at December 31, 2001. The shares held by subsidiaries were not considered to be outstanding shares at December 31, 2001 in the consolidated financial statements. Subsidiaries held 4,708,345 and 7,161,345 shares of the Company, which are not considered to be outstanding shares in the consolidated financial statements as of December 31, 2003 and 2002, respectively.

Earnings per share

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

	Year ended December 31, 2003	Year ended December 31, 2002	Year ended December 31, 2001
Income before dividends on preferred stock and cumulative effect of change in accounting policy.	3,569	1,843	2,109
Dividends on preferred shares	-	-	(157)
Income before cumulative effect of change in accounting principle	3,569	1,843	1,952
Cumulative effect of change in accounting principle	132	-	-
Net income related to common shares	3,701	1,843	1,952
Add back convertible debt interest (net of tax at effective rate)			
3.5% Convertible US dollar bonds, maturing 2002	-	6	17
1% Convertible US dollar bonds, maturing 2003	13	23	23
3.5% Convertible US dollar bonds, maturing 2007	27	1	-
Total diluted income before cumulative effect of change in accounting principle	3,609	1,873	1,992
Total diluted net income	3,741	1,873	1,992
Weighted average number of outstanding common shares (thousands of shares)	819,169	813,832	727,348
Add back treasury shares held in respect of convertible debt (thousands of shares)	20,977	13,942	21,675
Weighted average number of outstanding common shares, after dilution (thousands of shares)	840,146	827,774	749,023

Note 16. Stockholders' equity (continued)

Common stock

	As of December 31, 2003 (millions of shares)	As of December 31, 2002 (millions of shares)
Authorized and issued common stock, par value of 0.025 Russian rubles each	850	850
Common stock held by subsidiaries, not considered as outstanding	(5)	(7)
Treasury stock	(26)	(27)
Outstanding common stock	819	816

Note 17. Financial and derivative instruments

Commodity derivative instruments

The Group's use of derivative instruments is limited to certain marketing and trading of petroleum products outside of its physical crude oil and products businesses and limited hedging of commodity price risks. It includes the use of futures and swaps contracts together with purchase and sale contracts that qualify as derivative instruments. The Group maintains a system of controls over these activities that includes policies covering the authorization, reporting and monitoring of derivative activity. The Group does not believe its derivative activities pose material credit or market risks to its operations, financial condition or liquidity. The Group recognized a net loss of $37 million and $5 million during 2003 and 2002, respectively, associated with such activities. The fair value of derivative contracts outstanding and recorded on the consolidated balance sheet was a net liability of $1 million and $6 million as of December 31, 2003 and 2002, respectively.

Fair value

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

The fair value of long-term receivables included in other non-current assets approximates the amounts disclosed in the consolidated financial statements as a result of discounting using estimated market interest rates for similar financing arrangements. The fair value of long-term debt differs from the amount disclosed in the consolidated financial statements. The estimated fair value of long-term debt as of December 31, 2003 and 2002 was $2,851 million and $2,249 million, respectively, as a result of discounting using estimated market interest rates for similar financing arrangements. These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion, and interest.

Note 18. Business combinations

In November 2003, the Group acquired the remaining 49% of the share capital of OOO Bovel for $49 million. The acquisition increased the Group's ownership stake in OOO Bovel to 100%. OOO Bovel is a Russian oil and gas exploration company operating predominantly within the Timan-Pechora region of Northern Russia.

In November 2003, the Group acquired the remaining 40% of the share capital of OAO Nakhodkaneftegaz for $45 million. The acquisition increased the Group's ownership stake in OAO Nakhodkaneftegaz to 100%. OAO Nakhodkaneftegaz is a Russian oil and gas exploration company with significant proved undeveloped reserves within the Yamal-Nenetsky Autonomous District of Northern Russia.

In October 2003, the Group acquired 79.5% of the share capital of Beopetrol for 117 million EUROs ($140 million). Beopetrol is a marketing and distribution company operating a chain of retail petrol stations in Serbia. Refer to Note 20 "Commitments and contingencies" for information about capital commitments associated with this acquisition.

Note 18. Business combinations (continued)

In September 2003, the Group acquired 100% of the share capital of MV Properties for $121 million. MV Properties is a marketing and distribution company that owns a chain of retail petrol stations in Romania.

In June 2003, the Group acquired the remaining 27% of the share capital in ZAO LUKOIL-Perm (reregistered as OOO LUKOIL-Perm in December 2003) from a related party, which was controlled by certain members of the Group's management, for $398 million, thereby increasing the Group's ownership stake in ZAO LUKOIL-Perm to 100%. The amount of consideration was based on an independent valuation. ZAO LUKOIL-Perm is an exploration and production company operating in European Russia.

In June 2003, the Group acquired 39.4% of the shares in OAO Tebukneft and 55.4% of the shares in OAO Ukhtaneft, thereby increasing the Group's ownership stake in these companies to 85% and 85.5%, respectively. The Group also acquired 77.4% of the shares in ZAO RKM-Oil. The total cost of the interests acquired in these companies was $134 million. Prior to these acquisitions, OAO Tebukneft and OAO Ukhtaneft were recorded as associated companies using the equity method of accounting. In the second half 2003, through several transactions the Group acquired an additional 8.9% of the shares in OAO Tebukneft, 12.2% of the shares in OAO Ukhtaneft and 22.6% of the remaining share capital in ZAO RKM-Oil, thereby increasing the Group's ownership stake in these companies to 93.9%, 97.7% and 100%, respectively. The total cost of the additional interests acquired in these companies was $29 million. OAO Tebukneft, OAO Ukhtaneft and ZAO RKM-Oil are exploration and production companies operating in the Komi Republic of the Russian Federation.

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

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

In February 2002, the Group acquired an additional 16% of voting interest in OAO Komineft for $40 million, increasing the Group's voting interest in OAO Komineft to 70%. OAO Komineft is a Russian oil and gas exploration company operating predominantly in the Komi Republic of the Russian Federation. In June 2003, the Group acquired an additional 21.5% of voting interest in OAO Komineft for $63 million, thereby increasing the Group's voting interest in OAO Komineft to 91.5%. Subsequent to the acquisition the Group's voting interest in OAO Komineft decreased to 80.6% as a result of a decision not to pay dividends on preferred shares of OAO Komineft, which resulted in preferred shares becoming voting shares in accordance with OAO Komineft's charter.

In May and December 2001, the Group acquired 25% and 35%, respectively, of the share capital of OAO Yamalneftegazodobycha in total for $104 million. Prior to the December acquisition, OAO Yamalneftegazodobycha was recorded as an affiliated company using the equity method of accounting. OAO Yamalneftegazodobycha is a Russian oil and gas exploration company with significant proved undeveloped reserves predominantly within the Yamal-Nenetsky Autonomous District of Northern Russia. In November 2003, the Group acquired the remaining 40% of share capital of OAO Yamalneftegazodobycha for $25 million thereby increasing the Group's ownership stake in OAO Yamalneftegazodobycha to 100%.

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

(Millions of US dollars, except as indicated)

Note 18. Business combinations (continued)

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

During 2001, the Group acquired 74.1% of the shares in AGD, through a number of transactions. In January 2001, LUKOIL Finance Limited, a Group company acquired a 15.7% interest in AGD for $39 million. In March 2001, the Group acquired 58.4% of the shares in AGD in exchange for 14,930,172 of the Company's common stock and cash consideration of $130 million. AGD is a Russian oil and gas exploration company operating predominantly within the Timan-Pechora region of Northern Russia. In August 2003, the Group acquired 25.5% of the shares in AGD in exchange for its 13.6% investment in ZAO Rosshelf and 30% investment in OOO Polar Lights Company. The carrying value of these investments was approximately $40 million. The acquisition increased the Group's ownership stake in AGD to 99.7%.

Purchases of interests in ZAO LUKOIL-Perm, OAO Tebukneft, OAO Ukhtaneft, ZAO RKM-Oil, OAO Komineft, YaNTK, AGD, MV Properties, OAO Yamalneftegazodobycha, OAO Nakhodkaneftegaz, OOO Bovel and Beopetrol did not have a material impact on the Group’s consolidated operations for the period ended December 31, 2003. Therefore, no pro-forma income statement information has been provided in these consolidated financial statements.

Note 19. Financial guarantees

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

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

	As of December 31, 2003	As of December 31, 2002
Guarantees of equity investees’ debt	718	629
Guarantees of third parties’ debt	63	38
Total	**781**	**667**

Guarantees on debt

LUKARCO, an investee recorded under the equity method of accounting has a loan facility on which $835 million was drawn as of December 31, 2003. Borrowings under this loan bear interest at LIBOR plus 2.5% and are payable partly by February 7, 2007 with the remaining by May 1, 2012. To enhance the credit standing of LUKARCO, the Company guarantees 54% of the interest payment as well as the repayment of 54% of the loan at maturity. As of December 31, 2003, the total value of the Company’s guarantee was $573 million. Payments are due if the Company is notified that LUKARCO is not able to fulfill its obligations at the maturity date. No collateral secures LUKARCO’s obligation or the Company’s guarantee. As of December 31, 2003, it is not probable that the Company will be required to make payments under the guarantee, and therefore, no liability has been accrued related to this guarantee arrangement.

Note 19. Financial guarantees (continued)

ZAO Sever-TEK, an investee recorded under the equity method of accounting obtained a loan from EBRD on June 28, 2002 of $200 million. As of December 31, 2003, ZAO Sever-TEK's amount outstanding under this loan was $200 million. Until June 30, 2005, borrowings under this loan bear interest at LIBOR plus 3%. After June 30, 2005 borrowings under this loan bear interest at LIBOR plus 4.5%. The loan is payable in eight equal semi-annual payments starting from December 14, 2004. To enhance the credit standing of ZAO Sever-TEK, the Company guarantees 50% of the interest payments as well as the principal amount of the loan at maturity. As of December 31, 2003, the total value of the Company's guarantee is $100 million. Payments are due if the Company is notified that ZAO Sever-TEK is not able to fulfill its obligations at the maturity date. No collateral secures ZAO Sever-TEK's obligation. The guarantee is secured by the shares of ZAO Sever-TEK held by a Group company, the carrying amount of which was approximately $8 million as of December 31, 2003. As of December 31, 2003, it is not probable that the Company will be required to make payments under the guarantee, and therefore, no liability has been accrued related to this guarantee arrangement.

ZAO LUKOIL-Neftegazstroy, an investee recorded under the equity method of accounting obtained a bank guarantee from HSBC Bank on December 5, 2003 in the amount of $45 million. This guarantee is required under the terms of a subcontractor's agreement in relation to the construction of the Group's oil and refined products cargo terminal in Vysotsk, Leningrad region. The Company has undertaken to indemnify HSBC Bank against any amounts required to be paid by HSBC Bank under its guarantee. As of December 31, 2003, the total value of the Company's guarantee is $45 million. Payments are due if the Company is notified that ZAO LUKOIL-Neftegazstroy is not able to fulfill its obligations. No collateral secures ZAO LUKOIL-Neftegazstroy's obligation. As of December 31, 2003, it is not probable that the Company will be required to make payments under the guarantee, and therefore, no liability has been accrued related to this guarantee arrangement.

Note 20. Commitments and contingencies

Capital expenditure, exploration and investment programs

Under the terms of the purchase agreement, the Group is required to invest $268 million in the Neftochim Burgas AD refinery prior to 2005. As of December 31, 2003 the Group's commitments under this agreement were $41 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, 2003 the Group's commitments under this agreement were $60 million.

Under the terms of the purchase agreement, the Group is required to invest 85 million EUROs ($106 million using the year end exchange rate) into Beopetrol, the marketing and distribution company operating a chain of retail petrol stations in Serbia, within three years from the date of acquisition (Note 18 "Business combinations").

Group companies have commitments under the terms of existing license agreements in the Russian Federation of $1,959 million over the next 5 years and of $45 million thereafter.

Group companies have commitments for capital expenditure contributions in the amount of $421 million related to various PSAs over the next 35 years.

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

(Millions of US dollars, except as indicated)

Note 20. Commitments and contingencies (continued)

Operating lease obligations

A Group company has commitments of $808 million for the lease of petroleum distribution outlets over the next 12 years. Commitments for minimum rentals under these leases as of December 31, 2003 are as follows:

	As of December 31, 2003
2004	68
2005	67
2006	67
2007	66
2008	66
beyond	474

Insurance

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

Environmental liabilities

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

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

Social assets

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

Note 20. 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 frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among different tax authorities within the same jurisdictions and among taxing authorities in different jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. Such factors may create taxation risks in the Russian Federation and other countries where Group companies operate substantially more significant than those in other countries where taxation regimes have been subject to development and clarification over long periods.

During 2002, the Group agreed to settle claims made by the taxing authorities in respect of income and other taxes amounting to $103 million. The Group agreed to settle these claims without prejudice.

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

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

Litigation and claims

On November 27, 2001, Archangel Diamond Corporation ("ADC"), a Canadian diamond development company, filed a lawsuit in the district court of Denver, Colorado, against AGD, a Group company, and the Company (together the "Defendants") claiming compensation for damage allegedly caused by the Defendants relating to Almazny Bereg, a joint venture between AGD and ADC. ADC claims, among other things, that the Defendants interfered with the transfer of a diamond exploration license which was subject to an agreement between ADC and AGD. The total damages claimed by ADC are $4.8 billion, including compensatory damages of $1.2 billion and punitive damages of $3.6 billion. On October 15, 2002, the District Court of Denver, Colorado dismissed ADC's action against the Defendants based on lack of jurisdiction. On November 22, 2002, the Denver District Court denied ADC's request for reconsideration of the Court's October 15th order dismissing the case. ADC subsequently filed an appeal on November 27, 2002 with the Court of Appeals in the State of Colorado. On March 25, 2004, the Court of Appeals in the State of Colorado upheld the October 15, 2002 decision. ADC filed a petition for rehearing on April 7, 2004 requesting that the Court of Appeals in the State of Colorado reconsider its March 25, 2004 ruling. ADC's petition for rehearing is currently pending. Management does not believe that the ultimate resolution of this matter will have a material adverse effect on the Group's 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.

Note 20. Commitments and contingencies (continued)

Other matters

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

Note 21. Related party transactions

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

Below are related party transactions not disclosed elsewhere in the financial statements. Refer also to Notes 10, 13, 18 and 19 for transactions with related parties.

Sales of oil and oil products to related parties were $124 million, $148 million and $98 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Other sales to related parties were $76 million, $74 million and $46 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Purchases of oil and oil products from related parties were $270 million, $449 million and $305 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Purchases of construction services from related parties were $451 million, $206 million and $389 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Other purchases from related parties were $99 million, $64 million and $128 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Purchases of insurance services from related parties were $200 million, $161 million and $214 million during the years ended December 31, 2003, 2002 and 2001, respectively.

Amounts receivable from related parties, including loans and advances, were $243 million and $267 million as of December 31, 2003 and 2002, respectively. Amounts payable to related parties were $128 million and $99 million as of December 31, 2003 and 2002, respectively.

As of December 31, 2003 and 2002 the Government of the Russian Federation owned 8% of the shares of the common stock of the Company. 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.

(Millions of US dollars, except as indicated)

Note 22. Compensation plan

During 2003, the Company introduced a compensation plan available to certain members of management, which provides compensation based upon share appreciation rights on the Company's common stock. The number of shares, or rights, allocated to the plan is approximately 11 million shares. These rights vest in December 2006. In connection with the plan through December 31, 2003 a Group company purchased approximately 7 million treasury shares at a total cost of $138 million. The Group recorded approximately $3 million of compensation related to this plan in 2003. The Group also recorded compensation of $23 million during 2003 in relation to a previous existing plan that expired in 2003.

Note 23. Segment information

Presented below is information about the Group’s operating and geographical segments for the years ended December 31, 2003, 2002 and 2001 in accordance with SFAS No. 131, *“Disclosures about Segments of an Enterprise and Related Information.”*

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

The segment information for the years ended December 31, 2002 and 2001 was restated to reflect the change in composition of the Group’s operating segments.

For the years ended December 31, 2003, 2002 and 2001 the Group had one customer who accounted for 2.0%, 6.1% and 14.6% 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

2003	Exploration and production	Refining, marketing and distribution	Chemicals	Other	Elimination	Consolidated
Sales						
Third parties	1,580	19,542	963	33	-	22,118
Inter-segment	5,702	285	8	46	(6,041)	-
Total sales	7,282	19,827	971	79	(6,041)	22,118
Operating expenses and total cost of purchases	2,349	11,323	808	25	(6,050)	8,455
Depreciation, depletion and amortization	606	304	4	6	-	920
Interest expense	66	199	3	84	(79)	273
Income tax expense	381	605	11	10	-	1,007
Net income	1,995	1,611	72	31	(8)	3,701
Total assets	15,851	13,894	282	1,723	(5,176)	26,574
Capital expenditures	1,784	1,175	39	20	-	3,018

(Millions of US dollars, except as indicated)

Note 23. Segment information (continued)

2002	Exploration and production	Refining, marketing and distribution	Chemicals	Other	Elimination	Consolidated
Sales						
Third parties	1,264	13,466	581	23	-	15,334
Inter-segment	3,897	175	4	101	(4,177)	-
Total sales	5,161	13,641	585	124	(4,177)	15,334
Operating expenses and total cost of purchases	1,916	6,784	510	63	(4,177)	5,096
Depreciation, depletion and amortization	602	219	2	1	-	824
Interest expense	157	153	2	42	(132)	222
Income tax expense	256	465	4	14	-	739
Net income	220	1,700	20	53	(150)	1,843
Total assets	13,005	11,969	162	1,256	(4,391)	22,001
Capital expenditures	1,411	706	12	75	-	2,204

2001	Exploration and production	Refining, marketing and distribution	Chemicals	Other	Elimination	Consolidated
Sales						
Third parties	1,225	11,691	497	13	-	13,426
Inter-segment	4,153	300	13	66	(4,532)	-
Total sales	5,378	11,991	510	79	(4,532)	13,426
Operating expenses and total cost of purchases	2,031	6,697	447	30	(4,534)	4,671
Depreciation, depletion and amortization	606	278	2	-	-	886
Interest expense	74	189	1	27	(34)	257
Income tax expense	52	598	8	16	-	674
Net income (loss)	911	1,169	(9)	11	27	2,109
Total assets	12,024	10,046	79	777	(2,984)	19,942
Capital expenditures	1,789	809	4	15	-	2,617

Geographical segments

	2003	**2002**	**2001**
Sales of crude oil within Russia	374	469	992
Export of crude oil and sales of crude oil by foreign subsidiaries	6,844	4,336	3,951
Sales of petroleum products within Russia	3,450	2,883	2,595
Export of petroleum products and sales of petroleum products by foreign subsidiaries	9,480	6,225	4,690
Sales of chemicals within Russia	251	134	159
Export of chemicals and sales of chemicals by foreign subsidiaries	671	392	334
Other sales within Russia	568	554	435
Other export sales and other sales of foreign subsidiaries	480	341	270
Total sales	22,118	15,334	13,426

(Millions of US dollars, except as indicated)

Note 23. Segment information (continued)

2003	**Western Siberia**	**European Russia**	**International**	**Elimination**	**Consolidated**
Sales					
Third parties	512	5,346	16,260	-	22,118
Inter-segment	3,212	7,572	22	(10,806)	-
Total sales	3,724	12,918	16,282	(10,806)	22,118
Operating expenses and total cost of purchases	1,023	4,836	13,414	(10,818)	8,455
Depletion, depreciation and amortization	314	476	130	-	920
Interest expense	13	233	70	(43)	273
Income taxes	172	773	62	-	1,007
Net income	584	1,761	1,376	(20)	3,701
Total assets	6,721	15,912	7,247	(3,306)	26,574
Capital expenditures	543	1,953	522	-	3,018

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

2001	**Western Siberia**	**European Russia**	**International**	**Elimination**	**Consolidated**
Sales					
Third parties	379	4,389	8,658	-	13,426
Inter-segment	2,329	5,204	73	(7,606)	-
Total sales	2,708	9,593	8,731	(7,606)	13,426
Operating expenses and total cost of purchases	1,220	3,450	7,610	(7,609)	4,671
Depletion, depreciation and amortization	325	404	157	-	886
Interest expense	19	168	73	(3)	257
Income taxes	(66)	714	26	-	674
Net income	477	1,482	141	9	2,109
Total assets	5,400	11,883	3,991	(1,332)	19,942
Capital expenditures	667	1,579	371	-	2,617

Note 24. Subsequent events

Business combinations

On January 26, 2004, a Group company entered into an agreement with ConocoPhillips to purchase 308 gas stations and contracts to supply petroleum products to an additional 471 gas stations in the Northeast of the United States of America for $270 million. The transaction was finalized in May 2004.

Capital commitment

In March 2004, a Group company entered into an agreement for exploration, development and production of non-associated gas and condensate in Saudi Arabia. In respect of this agreement, a Group company has minimum exploration commitments of $215 million over the next 5 years.

(Millions of US dollars, except as indicated)

This section provides unaudited supplemental information on oil and gas exploration and production activities in accordance with SFAS No. 69, *"Disclosures About Oil and Gas Producing Activities"* in six separate tables:

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

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

I. Capitalized costs relating to oil and gas producing activities

As of December 31, 2003	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**	**Total**
Unproved oil and gas properties	127	508	635	23	658
Proved oil and gas properties	906	22,730	23,636	680	24,316
Accumulated depreciation, depletion, and amortization	(71)	(12,071)	(12,142)	(103)	(12,245)
Capitalised cost related to asset retirement obligation	2	36	38	1	39
Accumulated depreciation of capitalized cost related to asset retirement obligation	-	(5)	(5)	-	(5)
Net capitalized costs	964	11,198	12,162	601	12,763

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

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

(Millions of US dollars, except as indicated)

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

Year ended December 31, 2003	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**	**Total**
Acquisition of properties - proved	-	485	485	2	487
Acquisition of properties - unproved	2	311	313	1	314
Exploration costs	121	135	256	3	259
Development costs	128	1,400	1,528	249	1,777
Total costs incurred	251	2,331	2,582	255	2,837

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

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

Approximately $21 million relating to the cumulative effect of the adoption of SFAS No.143 is excluded from 2003 costs incurred.

(Millions of US dollars, except as indicated)

III. Results of operations for oil and gas producing activities

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

Year ended December 31, 2003	International	Russia	Total consolidated companies	Group's share in equity companies	Total
Revenue					
Sales	102	5,606	5,708	339	6,047
Transfers	3	2,638	2,641	28	2,669
Total revenues	105	8,244	8,349	367	8,716
Production costs (excluding production taxes)	(26)	(1,432)	(1,458)	(69)	(1,527)
Exploration expense	(15)	(121)	(136)	(4)	(140)
Depreciation, depletion, and amortization	(16)	(590)	(606)	(31)	(637)
Accretion expense	-	(11)	(11)	-	(11)
Taxes other than income taxes	-	(3,230)	(3,230)	(69)	(3,299)
Related income taxes	(8)	(686)	(694)	(53)	(747)
Total results of operations for producing activities	40	2,174	2,214	141	2,355

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

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

IV. Reserve quantity information

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

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

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

Management has included within proved reserves quantities which the Group expects to produce after the expiry dates of its current production licenses. These licenses expire between 2011 and 2026, with the most significant expiring between 2011 and 2014. Management believes the licenses will be extended to produce subsequent to their current expiry dates. The Group is in the process of extending all of its production licenses in the Russian Federation. The Group has already extended a portion of these licenses and expects to extend the remaining licenses for indefinite periods. To date there have been no unsuccessful license renewal applications.

Estimated net proved oil and gas reserves and changes thereto for the years 2003, 2002 and 2001 are shown in the table set out below.

(Millions of US dollars, except as indicated)

Millions of barrels	**Consolidated subsidiaries**			**Group's share in equity companies**	**Total**
	International	Russia	Total		
Crude oil					
January 1, 2001	364	12,078	12,442	453	12,895
Revisions of previous estimates	1	(66)	(65)	16	(49)
Purchase of hydrocarbons in place*	-	1,650	1,650	44	1,694
Extensions and discoveries	3	570	573	41	614
Production	(8)	(507)	(515)	(27)	(542)
December 31, 2001	360	13,725	14,085	527	14,612
Revisions of previous estimates	(24)	835	811	62	873
Purchase of hydrocarbons in place*	1	35	36	-	36
Extensions and discoveries	-	307	307	1	308
Production	(10)	(512)	(522)	(42)	(564)
Sales of reserves	-	(4)	(4)	(3)	(7)
December 31, 2002	327	14,386	14,713	545	15,258
Revisions of previous estimates	15	493	508	97	605
Purchase of hydrocarbons in place*	-	571	571	(206)	365
Extensions and discoveries	-	420	420	-	420
Production	(8)	(552)	(560)	(32)	(592)
Sales of reserves	(79)	-	(79)	-	(79)
December 31, 2003	**255**	**15,318**	**15,573**	**404**	**15,977**
Proved developed reserves					
December 31, 2001	87	8,689	8,776	418	9,194
December 31, 2002	107	9,041	9,148	359	9,507
December 31, 2003	**143**	**9,792**	**9,935**	**272**	**10,207**

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

The minority interest share included in the above total proved reserves was 256 million barrels, 1,089 million barrels and 951 million barrels as of December 31, 2003, 2002 and 2001, respectively. The minority interest share included in the above proved developed reserves was 133 million barrels, 411 million barrels and 343 million barrels as of December 31, 2003, 2002 and 2001, respectively. All minority interests relate to the reserves in the Russian Federation.

(Millions of US dollars, except as indicated)

Billions of cubic feet	**Consolidated subsidiaries**			**Group's share in equity companies**	**Total**
	International	Russia	Total		
Natural gas					
January 1, 2001	1,763	1,704	3,467	158	3,625
Revisions of previous estimates	(75)	315	240	31	271
Purchase of hydrocarbons in place*	-	8,299	8,299	78	8,377
Extensions and discoveries	-	1,028	1,028	25	1,053
Production	(20)	(85)	(105)	(11)	(116)
December 31, 2001	1,668	11,261	12,929	281	13,210
Revisions of previous estimates	(44)	809	765	(53)	712
Purchase of hydrocarbons in place*	-	4,967	4,967	-	4,967
Extensions and discoveries	-	5,401	5,401	-	5,401
Production	(43)	(76)	(119)	(7)	(126)
December 31, 2002	1,581	22,362	23,943	221	24,164
Revisions of previous estimates	602	(269)	333	13	346
Purchase of hydrocarbons in place*	-	98	98	(59)	39
Extensions and discoveries	-	57	57	-	57
Production	(28)	(96)	(124)	(9)	(133)
December 31, 2003	**2,155**	**22,152**	**24,307**	**166**	**24,473**
Proved developed reserves:					
December 31, 2001	570	1,503	2,073	179	2,252
December 31, 2002	574	1,656	2,230	110	2,340
December 31, 2003	**1,070**	**1,722**	**2,792**	**122**	**2,914**

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

The minority interest share included in the above total proved reserves was 21 billion cubic feet, 5,621 billion cubic feet and 3,355 billion cubic feet as of December 31, 2003, 2002 and 2001, respectively. The minority interest share included in the above proved developed reserves was 16 billion cubic feet, 64 billion cubic feet and 56 billion cubic feet as of December 31, 2003, 2002 and 2001, respectively. All minority interests relate to the reserves in the Russian Federation.

(Millions of US dollars, except as indicated)

V. Standardized measure of discounted future net cash flows

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

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

	International	Russia	Total consolidated companies	Group's share in equity companies	Total
As of December 31, 2003					
Future cash inflows	6,376	261,575	267,951	6,445	274,396
Future production and development costs	(3,476)	(149,526)	(153,002)	(3,117)	(156,119)
Future income tax expenses	(586)	(26,071)	(26,657)	(824)	(27,481)
Future net cash flows	2,314	85,978	88,292	2,504	90,796
Discount for estimated timing of cash flows (10% p.a.)	(1,392)	(55,642)	(57,034)	(1,389)	(58,423)
Discounted future net cash flows	922	30,336	31,258	1,115	32,373
Minority share in discounted future net cash flows	-	537	537	-	537

Included as a part of the $156 billion of future development costs are $2 billion of future dismantlement, abandonment and rehabilitation costs.

(Millions of US dollars, except as indicated)

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

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

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

Consolidated companies	**2003**	**2002**	**2001**
Discounted present value as at January 1	22,082	17,440	20,235
Net changes due to purchases and sales of minerals in place	16	448	4,169
Sales and transfers of oil and gas produced, net of production costs	(3,525)	(4,414)	(4,608)
Net changes in prices and production costs estimates	8,978	4,687	(12,686)
Extensions, discoveries, and improved recovery, less related costs	1,049	521	1,045
Development costs incurred during the period	1,528	1,680	1,011
Revisions of previous quantity estimates	1,163	1,781	(295)
Net change in income taxes	(2,867)	(2,052)	5,334
Other changes	(115)	(334)	160
Accretion of discount	2,949	2,325	3,075
Discounted present value at December 31	**31,258**	**22,082**	**17,440**

(Millions of US dollars, except as indicated)

Group's share in equity companies	**2003**	**2002**	**2001**
Discounted present value as at January 1	1,365	1,045	1,235
Net changes due to purchases and sales of minerals in place	(457)	(2)	194
Sales and transfers of oil and gas produced, net of production costs	(225)	(218)	(135)
Net changes in prices and production costs estimates	158	290	(518)
Extensions, discoveries, and improved recovery, less related costs	-	-	101
Development costs incurred during the period	127	69	44
Revisions of previous quantity estimates	218	162	54
Net change in income taxes	(121)	(121)	203
Other changes	(67)	15	(153)
Accretion of discount	117	125	20
Discounted present value at December 31	**1,115**	**1,365**	**1,045**

Total	**2003**	**2002**	**2001**
Discounted present value as at January 1	23,447	18,485	21,470
Net changes due to purchases and sales of minerals in place	(441)	446	4,363
Sales and transfers of oil and gas produced, net of production costs	(3,750)	(4,632)	(4,743)
Net changes in prices and production costs estimates	9,136	4,977	(13,204)
Extensions, discoveries, and improved recovery, less related costs	1,049	521	1,146
Development costs incurred during the period	1,655	1,749	1,055
Revisions of previous quantity estimates	1,381	1,943	(241)
Net change in income taxes	(2,988)	(2,173)	5,537
Other changes	(182)	(319)	7
Accretion of discount	3,066	2,450	3,095
Discounted present value at December 31	**32,373**	**23,447**	**18,485**