OAO LUKOIL

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(prepared in accordance with US GAAP)

As of and for the nine month period ended September 30, 2002

(unaudited)

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

Independent Accountants' Review Report

The Board of Directors of OAO LUKOIL:

We have reviewed the accompanying consolidated balance sheet of OAO LUKOIL and its subsidiaries as of September 30, 2002, and the related consolidated statements of income for the nine-month and three-month periods ended September 30, 2002 and 2001 and the consolidated statements of cash flows for the nine-month periods ended September 30, 2002 and 2001. These consolidated financial statements are the responsibility of the management of OAO LUKOIL.

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

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

KPMG Limited

January 30, 2003
Moscow, Russian Federation

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

	As of September 30, 2002 (unaudited)	As of December 31, 2001
Assets		
Current assets		
Cash and cash equivalents	1,155	1,170
Short-term investments	330	218
Accounts and notes receivable, net	2,441	2,230
Inventories	874	829
Prepaid taxes and other expenses	710	889
Other current assets	482	340
Total current assets	**5,992**	**5,676**
Investments	823	770
Property, plant and equipment	13,116	12,296
Deferred income tax assets	290	291
Goodwill and intangible assets	526	485
Other non-current assets	576	424
Total assets	**21,323**	**19,942**
Liabilities and Stockholders' equity		
Current liabilities		
Accounts payable	1,049	1,402
Short-term borrowings and current portion of long-term debt	982	1,031
Customers accounts placed in banking subsidiaries	563	449
Taxes payable	776	522
Other current liabilities	576	421
Total current liabilities	**3,946**	**3,825**
Long-term debt	2,062	1,948
Deferred income tax liabilities	416	390
Other long-term liabilities	549	463
Minority interest in subsidiary companies	847	931
Total liabilities	**7,820**	**7,557**
Stockholders' equity		
Common stock (850 million shares of par value of 0.025 Russian rubles each, authorized as of September 30, 2002 and December 31, 2001; 850 million shares issued as of September 30, 2002 (including 7 million shares held by subsidiaries) and December 31, 2001 (including 19 million shares held by subsidiaries); 817 million and 805 million shares outstanding as of September 30, 2002 and December 31, 2001, respectively)	15	15
Treasury stock (common stock, at cost; 26 million and 26 million shares as of September 30, 2002 and December 31, 2001, respectively)	(413)	(403)
Additional paid-in capital	3,227	3,044
Retained earnings	10,688	9,738
Accumulated other comprehensive loss	(14)	(9)
Total stockholders' equity	**13,503**	**12,385**
Total liabilities and stockholders' equity	**21,323**	**19,942**

President of OAO LUKOIL
Alekperov V.Y.

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

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

Consolidated Statements of Income

(Millions of US dollars, unless otherwise noted)

	For the three months ended September 30, 2002 (unaudited)	For the three months ended September 30, 2001 (unaudited)	For the nine months ended September 30, 2002 (unaudited)	For the nine months ended September 30, 2001 (unaudited)
Revenues				
Sales (including excise and export tariffs)	4,392	3,577	11,033	10,395
Equity share in income of affiliates	40	37	75	103
Total revenues	**4,432**	**3,614**	**11,108**	**10,498**
Costs and other deductions				
Operating expenses	(1,426)	(1,430)	(3,577)	(3,575)
Selling, general and administrative expenses	(754)	(726)	(1,970)	(1,660)
Depreciation, depletion and amortization	(226)	(229)	(704)	(676)
Taxes other than income taxes	(628)	(271)	(1,436)	(763)
Excise and export tariffs	(593)	(362)	(1,378)	(1,170)
Exploration expense	(20)	(20)	(70)	(64)
Loss on disposal and impairment of assets	(42)	(38)	(68)	(50)
Income from operating activities	**743**	**538**	**1,905**	**2,540**
Interest expense	(49)	(35)	(175)	(164)
Interest and dividend income	35	46	103	128
Currency translation gain	52	45	36	28
Other non-operating (expense) income	(10)	31	60	43
Minority interest	(11)	1	(42)	(50)
Income before income taxes	**760**	**626**	**1,887**	**2,525**
Current income taxes	(271)	(219)	(627)	(706)
Deferred income tax benefit	18	66	87	87
Net income	**507**	**473**	**1,347**	**1,906**
Dividends declared on preferred stock	-	(157)	-	(157)
Net income available for common shareholders	**507**	**316**	**1,347**	**1,749**
Basic earnings per share of common stock (US dollars)	0.62	0.43	1.66	2.42
Diluted earnings per share of common stock (US dollars)	0.62	0.43	1.66	2.39

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

	For the nine months ended September 30, 2002 (unaudited)	For the nine months ended September 30, 2001 (unaudited)
Cash flows from operating activities		
Net income	**1,347**	**1,906**
Adjustments for non-cash items:		
Depreciation, depletion and amortization	704	676
Equity share in income of affiliates	(75)	(103)
Loss on disposal and impairment of assets	68	50
Deferred income taxes	(87)	(87)
Non-cash currency translation gain	(19)	(6)
Non-cash investing activities	(57)	(84)
All other items – net	5	(81)
Changes in operating assets and liabilities:		
Accounts and notes receivable	(148)	243
Short-term loans receivable of banking subsidiaries	53	(59)
Net movements of customers accounts placed in banking subsidiaries	10	33
Inventories	(26)	(87)
Accounts payable	(481)	(684)
Taxes payable	170	95
Other current assets and liabilities	234	(50)
Net cash provided by operating activities	**1,698**	**1,762**
Cash flows from investing activities		
Capital expenditures	(1,454)	(1,700)
Proceeds from sale of property, plant and equipment	16	18
Purchases of investments	(262)	(305)
Proceeds from sale of investments	76	85
Acquisition of subsidiaries, net of cash acquired	(128)	(306)
Net cash used in investing activities	**(1,752)**	**(2,208)**
Cash flows from financing activities		
Net movements of short-term borrowings	139	560
Proceeds from issuance of long-term debt	390	558
Principal payments of long-term debt	(330)	(277)
Dividends paid	(189)	(84)
Proceeds from issuance of common stock	18	-
Purchase of treasury stock	(286)	(134)
Proceeds from sale of treasury stock	269	71
Other – net	46	62
Net cash provided by financing activities	**57**	**756**
Effect of exchange rate changes on cash and cash equivalents	(18)	(19)
Net (decrease) increase in cash and cash equivalents	**(15)**	**291**
Cash and cash equivalents at beginning of the period	1,170	1,137
Cash and cash equivalents at end of the period	1,155	1,428
Supplemental disclosures of cash flow information		
Interest paid	175	141
Income tax paid	620	632

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

Note 1. Basis of Financial Statement presentation

The accompanying consolidated interim financial statements and notes thereto of OAO LUKOIL (the "Company") and its subsidiaries (the "Group") have not been audited by independent accountants, except for the balance sheet at December 31, 2001. In the opinion of the Company's management, the interim financial information includes all adjustments and disclosures necessary to present fairly the Group's financial position, results of operations and cash flows for the interim periods reported herein. These adjustments were of a normal recurring nature.

Certain notes and other information have been condensed or omitted from the interim financial statements. Therefore, these financial statements should be read in conjunction with the Group's 2001 Annual Consolidated Financial Statements.

The results for the three-month and nine-month periods ended September 30, 2002, are not necessarily indicative of the results expected for the full year.

Foreign currency translation

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

As the Russian economy is considered to be hyperinflationary, the US dollar is the functional currency of the Company in accordance with Statement of Financial Accounting Standards ("SFAS") No. 52, "*Foreign Currency Translation*".

For the purposes of presenting financial statements prepared in conformity with US GAAP, the US dollar is considered to be the reporting currency of the Group.

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

For operations in the Russian Federation, 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 statement of income.

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

As of September 30, 2002 and December 31, 2001, exchange rates of 31.64 and 30.14 Russian rubles to the US dollar, respectively, have been used for translation purposes.

Note 1. Basis of Financial Statement presentation (continued)

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

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

Note 2. Accounting changes

Effective January 1, 2002, the Group adopted SFAS No. 142, *"Goodwill and Other Intangible Assets."* Under SFAS No. 142, goodwill and intangible assets with indefinite useful lives are no longer amortized, but are instead tested for impairment at least annually. SFAS No. 142 requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives.

Beginning January 1, 2002, effective with the adoption of SFAS No. 142, the Group discontinued the amortization of goodwill. Goodwill amortization recorded during the three months and nine months ended September 30, 2001 was $4 million and $16 million, respectively.

As of January 1, 2002, the Group had unamortized goodwill of $221 million, which was subject to the transitional goodwill impairment assessment provisions of SFAS No. 142. The Group has completed its assessment of the fair value of its reporting units that have goodwill and compared such fair value to each reporting unit's carrying value, including goodwill, as of January 1, 2002. Based on this assessment, no transitional impairment of the carrying value of goodwill was indicated.

Effective January 1, 2002, the Group adopted SFAS No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets."* SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The adoption of this standard had no significant impact on the Group's financial statements.

Note 3. Recently issued statements of accounting standards and interpretations

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, *"Accounting for Asset Retirement Obligations."* SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. Subsequently, the liability will be accreted for the passage of time and the related asset will be depreciated over its estimated useful life. The Group is required to adopt SFAS No. 143 effective January 1, 2003. The Group is currently evaluating the impact of adopting SFAS No. 143.

Note 3. Recently issued statements of accounting standards and interpretations (continued)

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

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

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

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

The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. The disclosure provisions of Interpretation No. 45 are effective for financial statements of interim and annual periods that end after December 15, 2002. The Group is currently evaluating the impact of adopting Interpretation No. 45.

In January 2003, the FASB issued Interpretation No. 46, *"Consolidation of Variable Interest Entities"* ("Interpretation No. 46"), which addresses when a company should include in its financial statements the assets, liabilities and activities of another entity. Many variable interest entities have commonly been referred to as special purpose entities or off-balance sheet structures, but the guidance of Interpretation No. 46 applies to a larger population of entities.

In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A variable interest entity often holds financial assets, including loans or receivables, real estate or other property. A variable interest entity may be essentially passive or it may engage in research and development or other activities on behalf of another company.

Until now, one company generally has included another entity in its consolidated financial statements only if it controlled the entity through voting interests. Interpretation No. 46 changes that by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. Interpretation No. 46 also requires disclosures about variable interest entities that a company is not required to consolidate but in which it has a significant variable interest.

(Millions of US dollars, unless otherwise noted)

Note 3. Recently issued statements of accounting standards and interpretations (continued)

The consolidation requirements of Interpretation No. 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Group is currently evaluating the impact of adopting Interpretation No. 46.

Note 4. Income taxes

The statutory income tax rate in the Russian Federation during the period ended September 30, 2001 was 35%. Effective January 1, 2002, as a result of amendments to the Tax Code of the Russian Federation, the statutory income tax rate was changed from 35% to 24%. Also, as a result of the amendments, certain tax benefits have been eliminated, including investment tax credits.

The effective tax rate increased during the three months ended September 30, 2002 as the result of the Group's agreement to settle claims by the taxing authorities in respect of income and other taxes amounting to $103 million. The Group agreed to settle these claims without prejudice.

Note 5. Cash and cash equivalents

	As of September 30, 2002	As of December 31, 2001
Cash held in Russian rubles	194	225
Cash held in banking subsidiaries in Russian rubles	196	148
Cash held in other currencies	635	580
Cash held in banking subsidiaries in other currencies	130	217
Total cash and cash equivalents	**1,155**	**1,170**

Note 6. Accounts and notes receivable, net

	As of September 30, 2002	As of December 31, 2001
Trade accounts and notes receivable (net of provisions of $80 million and $77 million as of September 30, 2002 and December 31, 2001, respectively)	1,367	1,383
Current VAT recoverable	641	434
Short-term loans receivable of banking subsidiaries (net of provisions $14 as of September 30, 2002 and December 31, 2001)	220	236
Other current accounts receivable (net of provisions of $34 million and $21 million as of September 30, 2002 and December 31, 2001, respectively)	213	177
Total accounts and notes receivable, net	**2,441**	**2,230**

Note 7. Short-term borrowings and current portion of long-term debt

	As of September 30, 2002	As of December 31, 2001
Short-term borrowings	668	553
Current portion of long-term debt	314	478
Total short-term borrowings and current portion of long-term debt	**982**	**1,031**

The majority of short-term borrowings are loans from various third parties and are secured by export sales, property, plant and equipment and securities.

(Millions of US dollars, unless otherwise noted)

Note 8. Long-term debt

	As of September 30, 2002	As of December 31, 2001
Long-term loans and borrowings from third parties	1,723	1,453
Long-term loans and borrowings from related parties	3	1
3.5% Convertible US dollar bonds, maturing 2002	-	298
1% Convertible US dollar bonds, maturing 2003	470	476
Variable interest unsecured Russian ruble bonds, maturing 2003	95	99
Capital lease obligation	85	99
Total long-term debt	2,376	2,426
Current portion of long-term debt	(314)	(478)
Total non-current portion of long-term debt	**2,062**	**1,948**

Long-term loans and borrowings

Long-term loans and borrowings are primarily repayable in US dollars, maturing from 2002 through 2025 and are secured by export sales, property, plant and equipment and securities.

Convertible US dollar bonds

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

On November 3, 1997, a Group company issued 350,000 high yield and premium exchangeable redeemable bonds with a face value of $1,000 each, maturing on November 3, 2003, and exchangeable for 5.625 GDRs of the Company per bond. The bonds are convertible into GDRs up to the maturity dates. The GDRs are exchangeable into four shares of common stock of the Company. Bonds not converted by the maturity date must be redeemed for cash. The redemption price at maturity will be 153.314% of the face value in respect of the bonds issued on November 3, 1997. The Company may redeem the bonds for cash prior to maturity, subject to certain restrictions and early redemption charges. The carrying amount of the bonds is being accreted to their redemption value with the accreted amount being charged to the consolidated statement of income. During the third quarter 2002, the Company repurchased 20,700 bonds on the open market.

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

Russian ruble bonds

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

Note 9. Comprehensive income

	For the three months ended September 30, 2002	For the three months ended September 30, 2001	For the nine months ended September 30, 2002	For the nine months ended September 30, 2001
Net income	507	473	1,347	1,906
Other comprehensive income (loss):				
Foreign currency translation adjustment	(2)	4	(5)	3
Comprehensive income	**505**	**477**	**1,342**	**1,909**

Note 10. Earnings per share

	For the three months ended September 30, 2002	For the three months ended September 30, 2001	For the nine months ended September 30, 2002	For the nine months ended September 30, 2001
Net income	507	473	1,347	1,906
Dividends on preferred stock	-	(157)	-	(157)
Net income related to common shares	507	316	1,347	1,749
Add back convertible debt interest (net of tax at effective	-			
3.5% Convertible US dollar bonds, maturing 2002	-	4	6	13
1% Convertible US dollar bonds, maturing 2003	6	6	17	17
Total diluted net income	513	326	1,370	1,779
Weighted average number of outstanding common shares (thousands of shares)	818,702	728,190	812,732	722,430
Add back treasury shares held in respect of convertible debt (thousands of shares)	7,569	21,675	14,186	21,675
Weighted average number of outstanding common shares, after dilution (thousands of shares)	826,271	749,865	826,918	744,105

During June 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.

Note 11. Business combinations

In February 2002, the Group acquired an additional 13% of OAO Komineft for $40 million, increasing the Group’s ownership stake in OAO Komineft to 67%. OAO Komineft is a Russian oil and gas exploration company operating predominantly in the Komi Republic of the Russian Federation.

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

During 2001, the Group acquired 74.1% of the shares in OAO Arkhangelskgeoldobycha, or AGD, through a number of transactions. In January 2001, the Group 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.

Note 11. Business combinations (continued)

In March 2001, the Company exchanged 720,364 shares of common stock for the 13% and 22% 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.

In January 2001, the Group acquired the remaining 28% of shares in Getty Petroleum Marketing Inc. for $20 million thereby increasing the Group's ownership stake in Getty Petroleum Marketing Inc. to 100%.

Note 12. Related party transactions

In the rapidly developing business environment in the Russian Federation, companies and individuals have frequently used nominees and other forms of intermediary companies in transactions. The senior management of the Company consider that the Group has appropriate procedures in place to identify and properly disclose transactions with related parties in this environment and has disclosed all of the relationships identified which it deemed to be significant.

Sales of oil and oil products to related parties were $2 million, $21 million, $114 million and $73 million for the three months ended September 30, 2002 and 2001 and for the nine months ended September 30, 2002 and 2001, respectively.

Other sales to related parties were $31 million, $16 million, $55 million and $37 million for the three months ended September 30, 2002 and 2001 and for the nine months ended September 30, 2002 and 2001, respectively.

Purchases of oil and oil products from related parties were $189 million, $57 million, $311 million and $178 million for the three months ended September 30, 2002 and 2001 and for the nine months ended September 30, 2002 and 2001, respectively.

Purchases of construction services from related parties were $50 million, $74 million, $190 million and $282 million for the three months ended September 30, 2002 and 2001 and for the nine months ended September 30, 2002 and 2001, respectively.

Purchases of insurance services from related parties were $50 million, $30 million, $135 million and $129 million during the three months ended September 30, 2002 and 2001 and during the nine months ended September 30, 2002 and 2001, respectively.

Other purchases from related parties were $7 million, $21 million, $11 million and $76 million for the three months ended September 30, 2002 and 2001 and for the nine months ended September 30, 2002 and 2001, respectively.

Amounts receivable from related parties, including loans and advances, were $278 million and $209 million as of September 30, 2002 and December 31, 2001, respectively. Amounts payable to related parties were $146 million and $73 million as of September 30, 2002 and December 31, 2001, respectively.

(Millions of US dollars, unless otherwise noted)

Note 12. Related party transactions (continued)

As of September 30, 2002 and December 31, 2001 the Government of the Russian Federation owned 14% of the shares of the common stock of the Company. In December 2002, the Government of the Russian Federation sold 50 million of its shares of common stock of the Company bringing its ownership to approximately 8%. The Russian Federation also owns, controls, or has significant influence over the operations of many other companies and enterprises in the Russian Federation and has a significant influence on the operation of business and the economic environment. A significant part of the activity of Group companies is linked to companies belonging to or controlled by the Russian Federation. The Russian Federation is a customer and supplier of the Group through numerous affiliated and other related organizations. Management consider such trading relationships as part of the normal course of conducting business in the Russian Federation and consider that such relationships will remain for the foreseeable future. Accordingly, information on these transactions is not disclosed as related party transactions.

Note 13. Segment information

Presented below is information about the Group's operating and geographical segments for the periods ended September 30, 2002 and 2001, in accordance with SFAS No. 131, *"Disclosures about Segments of an Enterprise and Related Information"*.

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

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

Operating segments

For the three months ended September 30, 2002

	Exploration and production	Refining, marketing and distribution	Other	Elimination	Consolidated
Sales					
Third parties	371	4,020	1	-	4,392
Inter-segment	951	37	63	(1,051)	-
Total sales	1,322	4,057	64	(1,051)	4,392
Operating expenses	377	2,089	39	(1,079)	1,426
Depreciation, depletion and amortization expense	170	56	4	(4)	226
Interest expense	15	39	7	(12)	49
Income tax expense	31	214	8	-	253
Net income	84	407	25	(9)	507
Total assets	12,719	11,395	1,067	(3,858)	21,323
Capital expenditures	407	215	7	-	629

(Millions of US dollars, unless otherwise noted)

Note 13. Segment information (continued)

For the three months ended September 30, 2001

	Exploration and production	Refining, marketing and distribution	Other	Elimination	Consolidated
Sales					
Third parties	327	3,228	22	-	3,577
Inter-segment	838	79	21	(938)	-
Total sales	1,165	3,307	43	(938)	3,577
Operating expenses	351	1,937	34	(892)	1,430
Depreciation, depletion and amortization expense	185	44	-	-	229
Interest expense	18	23	5	(11)	35
Income tax expense	79	70	4	-	153
Net income (loss)	135	376	(6)	(32)	473
Total assets	11,172	10,462	751	(2,689)	19,696
Capital expenditures	436	343	8	-	787

For the nine months ended September 30, 2002

	Exploration and production	Refining, marketing and distribution	Other	Elimination	Consolidated
Sales					
Third parties	887	10,118	28	-	11,033
Inter-segment	2,720	137	126	(2,983)	-
Total sales	3,607	10,255	154	(2,983)	11,033
Operating expenses	1,245	5,225	101	(2,994)	3,577
Depreciation, depletion and amortization expense	510	192	6	(4)	704
Interest expense	57	114	30	(26)	175
Income tax expense	121	404	15	-	540
Net income	234	1,103	32	(22)	1,347
Total assets	12,719	11,395	1,067	(3,858)	21,323
Capital expenditures	987	535	12	-	1,534

(Millions of US dollars, unless otherwise noted)

Note 13. Segment information (continued)

For the nine months ended September 30, 2001

	Exploration and production	Refining, marketing and distribution	Other	Elimination	Consolidated
Sales					
Third parties	1,038	9,290	67	-	10,395
Inter-segment	2,896	285	91	(3,272)	-
Total sales	3,934	9,575	158	(3,272)	10,395
Operating expenses	1,355	5,293	125	(3,198)	3,575
Depreciation, depletion and amortization expense	490	185	1	-	676
Interest expense	63	134	17	(50)	164
Income tax expense	271	335	13	-	619
Net income	594	1,362	2	(52)	1,906
Total assets	11,172	10,462	751	(2,689)	19,696
Capital expenditures	1,165	622	10	-	1,797

Geographical segments

	For the three months ended September 30, 2002	**For the three months ended September 30, 2001**	**For the nine months ended September 30, 2002**	**For the nine months ended September 30, 2001**
Sales of crude oil within Russia	127	371	362	789
Export of crude oil and sales of oil of foreign subsidiaries	1,206	1,102	3,189	3,079
Sales of refined product within Russia	861	519	2,017	1,951
Export of refined product and sales of refined products of foreign subsidiaries	1,792	1,281	4,533	3,760
Other sales within Russia	190	228	516	555
Other export sales and other sales of foreign subsidiaries	216	76	416	261
Total sales	**4,392**	**3,577**	**11,033**	**10,395**

For the three months ended September 30, 2002

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	114	1,258	3,020	-	4,392
Inter-segment	580	1,811	15	(2,406)	-
Total sales	694	3,069	3,035	(2,406)	4,392
Operating expenses	276	1,125	2,460	(2,435)	1,426
Depreciation, depletion and amortization expense	91	108	27	-	226
Interest expense	6	35	6	2	49
Income tax expense	3	248	2	-	253
Net income (loss)	(108)	531	53	31	507
Total assets	5,517	13,289	4,710	(2,193)	21,323
Capital expenditures	69	366	194	-	629

(Millions of US dollars, unless otherwise noted)

Note 13. Segment information (continued)

For the three months ended September 30, 2001

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	84	1,117	2,376	-	3,577
Inter-segment	574	1,091	7	(1,672)	-
Total sales	658	2,208	2,383	(1,672)	3,577
Operating expenses	289	708	2,060	(1,627)	1,430
Depreciation, depletion and amortization expense	84	117	28	-	229
Interest expense	4	18	13	-	35
Income tax expense (benefit)	31	127	(5)	-	153
Net income	108	333	64	(32)	473
Total assets	5,069	11,926	4,258	(1,557)	19,696
Capital expenditures	183	588	16	-	787

For the nine months ended September 30, 2002

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	259	3,067	7,707	-	11,033
Inter-segment	1,523	4,623	48	(6,194)	-
Total sales	1,782	7,690	7,755	(6,194)	11,033
Operating expenses	724	2,769	6,290	(6,206)	3,577
Depreciation, depletion and amortization expense	257	333	114	-	704
Interest expense	17	126	38	(6)	175
Income tax expense	34	503	3	-	540
Net income (loss)	(41)	1,204	207	(23)	1,347
Total assets	5,517	13,289	4,710	(2,193)	21,323
Capital expenditures	254	913	367	-	1,534

For the nine months ended September 30, 2001

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	290	3,430	6,675	-	10,395
Inter-segment	1,746	3,918	36	(5,700)	-
Total sales	2,036	7,348	6,711	(5,700)	10,395
Operating expenses	891	2,443	5,868	(5,627)	3,575
Depreciation, depletion and amortization expense	265	304	107	-	676
Interest expense	7	101	58	(2)	164
Income tax expense	101	499	19	-	619
Net income	270	1,577	109	(50)	1,906
Total assets	5,069	11,926	4,258	(1,557)	19,696
Capital expenditures	476	1,172	149	-	1,797

Note 14. Dividends

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 meeting was equivalent to $0.48.

Note 15. Contingencies

Litigation and claims

On November 27, 2001, Archangel Diamond Corporation ("ADC"), a Canadian diamond development company, filed a lawsuit in the district court of Denver, Colorado, against OAO Arkhangelskgeoldobycha ("AGD"), a Group company, and the Company (together the "Defendants") claiming compensation for damage allegedly caused by the Defendants relating to Almazny Bereg, a joint venture between AGD and ADC. ADC claims, among other things, that the Defendants interfered with the transfer of a diamond exploration license which was subject to an agreement between ADC and AGD. The total damages claimed by ADC are $4.8 billion, including compensatory damages of $1.2 billion and punitive damages of $3.6 billion. 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 has subsequently filed an appeal with the Court of Appeals in the State of Colorado. The Company does not believe that the ultimate resolution of this matter will have a material adverse effect on its financial condition.

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

Taxation environment

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

The regional organizational structure of the 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's tax planning and management strategies are based on its understanding of tax legislation existing 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 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.

Note 15. Contingencies (continued)

Other matters

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

Note 16. Post balance sheet events

Bond issuance

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 the bonds issued on November 29, 2002. The Company may redeem the bonds for cash prior to maturity, subject to certain restrictions and early redemption charges. The carrying amount of the bonds will be accreted to their redemption value with the accreted amount being charged to the consolidated statement of income.

Sale of property

On December 20, 2002, a Group company entered into a contract with INPEX Corporation, a Japanese company, to sell for $1,375 million the Group's 10% interest in the production sharing agreement ("PSA") operated by the Azerbaijan International Operating Company. The purpose of this PSA is to explore and develop the Azeri and Chirag fields and the deep water portion of the Guneshli field in the Azeri sector of the Caspian Sea. The price does not include adjustments for working capital or interest payable at LIBOR to the Group on the purchase price and other adjustments. As of September 30, 2002 the net assets of the Group's 10% interest were approximately $171 million. The balances and transactions of this interest in the PSA continue to be included in these interim consolidated financial statements. The transaction is expected to be fully completed in the first half of 2003.