OAO LUKOIL

CONSOLIDATED FINANCIAL STATEMENTS

(prepared in accordance with US GAAP)

As of December 31, 2000 and 1999
and for each of the years in the three year period
ended December 31, 2000

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, 2000 and 1999, 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, 2000. 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 an 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 consolidated financial position of OAO LUKOIL and its subsidiaries as of December 31, 2000 and 1999, and the consolidated results of the operations and the consolidated cash flows of OAO LUKOIL and its subsidiaries for the each of the years in the three year period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

August 8, 2001
Moscow, Russian Federation

OAO LUKOIL
Consolidated Balance Sheets
As of December 31, 2000 and 1999
(Millions of US dollars, unless otherwise noted)

	2000	1999
Assets		
Current assets		
Cash and cash equivalents	1,137	537
Short-term investments	229	137
Accounts and notes receivable (less provisions of $125 million and $97 million in 2000 and 1999, respectively)	2,972	1,598
Inventories	719	530
Prepaid taxes and other expenses	675	133
Other current assets	362	147
Total current assets	**6,094**	**3,082**
Investments	423	750
Property, plant and equipment	9,906	8,129
Deferred income tax assets	201	79
Goodwill and intangible assets	278	251
Other non-current assets	207	212
Total assets	**17,109**	**12,503**
Liabilities and Stockholders' equity		
Current liabilities		
Accounts payable	2,221	1,479
Short-term borrowings and current portion of long-term debt	829	728
Taxes payable	404	569
Other current liabilities	238	110
Total current liabilities	**3,692**	**2,886**
Long-term debt	1,483	1,769
Deferred income tax liabilities	284	146
Other long-term liabilities	147	145
Minority interest in subsidiary companies	984	484
Total liabilities	**6,590**	**5,430**
Stockholders' equity		
Common stock (757 million and 738 million shares of par value of 0.025 rubles each, authorized in 2000 and 1999, respectively; 738 million shares issued in 2000 and 1999, respectively; 715 million and 678 million shares outstanding in 2000 and 1999, respectively)	14	14
Preferred stock (77 million shares of par value of 0.025 rubles each authorized and issued in 2000 and 1999, respectively; 77 million and 75 million shares outstanding in 2000 and 1999, respectively)	1	1
Treasury stock (common and preferred stock, at cost; 23 million and 62 million shares in 2000 and 1999, respectively)	(376)	(549)
Additional paid-in capital	2,895	2,816
Retained earnings	7,994	4,803
Accumulated other comprehensive loss	(9)	(12)
Total stockholders' equity	**10,519**	**7,073**
Total liabilities and stockholders' equity	**17,109**	**12,503**

President of OAO LUKOIL
Alekperov V.Y.

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

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

OAO LUKOIL
Consolidated Statements of Income
For the years ended December 31, 2000, 1999 and 1998
(Millions of US dollars, except share data)

	2000	1999	1998
Revenues			
Sales	13,010	7,288	6,639
Equity share in income (loss) of affiliates	230	88	(20)
Total revenues	**13,240**	**7,376**	**6,619**
Costs and other deductions			
Operating expenses	(4,597)	(3,186)	(4,417)
Selling, general and administrative expenses	(2,316)	(1,263)	(1,148)
Depreciation, depletion and amortization	(838)	(598)	(587)
Taxes other than income taxes	(1,050)	(527)	(743)
Exploratory expense	(130)	(61)	(51)
Loss on disposal and impairment of assets	(247)	(49)	(183)
Income (loss) from operating activities	**4,062**	**1,692**	**(510)**
Interest expense	(153)	(147)	(218)
Interest and dividend income	209	73	49
Currency translation gain (loss)	1	(34)	1,289
Other non-operating (expense) income	(195)	(301)	254
Minority interest	(61)	(34)	13
Income before income taxes	**3,863**	**1,249**	**877**
Current income taxes	(569)	(302)	(149)
Deferred income taxes	18	115	1
Net income	**3,312**	**1,062**	**729**
Dividends declared on preferred stock	(47)	(8)	(11)
Net income available for common stockholders	**3,265**	**1,054**	**718**
Basic earnings per share of common stock (US dollars)	4.83	1.69	1.15
Diluted earnings per share of common stock (US dollars)	4.73	1.69	1.15

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, 2000, 1999 and 1998
(Millions of US dollars, unless otherwise noted)

	2000		1999		1998	
	Stockholders' equity	Comprehen-sive income	Stockholders' equity	Comprehen-sive income	Stockholders' equity	Comprehen-sive income
Common stock						
Outstanding at December 31	**14**		**14**		**14**	
Preferred stock						
Outstanding at December 31	**1**		**1**		**1**	
Treasury stock						
Balance at January 1	(549)		(426)		(401)	
Stock purchased	(1,021)		(150)		(63)	
Stock issued	1,194		27		38	
Balance at December 31	**(376)**		**(549)**		**(426)**	
Additional paid-in capital						
Balance at January 1	2,816		2,245		2,245	
Premium on shares issued for KomiTEK acquisition	-		469		-	
Contributions required and received under privatization tender	117		102		-	
Proceeds from issuance of treasury stock in excess of carrying amount (Note 11)	292		-		-	
Put option on Company's common stock (Note 11)	(330)		-		-	
Balance at December 31	**2,895**		**2,816**		**2,245**	
Retained earnings						
Balance at January 1	4,803	-	3,756	-	3,062	-
Net income	3,312	3,312	1,062	1,062	729	729
Dividends on preferred stock	(47)	-	(8)	-	(11)	-
Dividends on common stock	(74)	-	(7)	-	(24)	-
Balance at December 31	**7,994**		**4,803**		**3,756**	
Accumulated other comprehensive loss						
Balance at January 1	(12)		(5)		-	
Foreign currency translation adjustment	3	3	(7)	(7)	(5)	(5)
Balance at December 31	**(9)**		**(12)**		**(5)**	
Total comprehensive income for the year		3,315		1,055		724
Total stockholders' equity as of December 31	**10,519**		**7,073**		**5,585**	

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

	Share activity		
	2000	**1999**	**1998**
	(millions of shares)	**(millions of shares)**	**(millions of shares)**
Common stock			
Balance at January 1	738	669	669
Conversion of preferred stock into common stock (1 preference share into 6 common shares)	-	69	-
Balance at December 31	**738**	**738**	**669**
Preferred stock			
Balance at January 1	77	77	77
Issuance of preferred stock	-	12	-
Conversion of preferred stock into common stock	-	(12)	-
Balance at December 31	**77**	**77**	**77**
Treasury stock			
Balance at January 1	(62)	(48)	(47)
Purchase of treasury stock	(88)	(25)	(9)
Sales of treasury stock	127	11	8
Balance at December 31	**(23)**	**(62)**	**(48)**

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, 2000, 1999 and 1998
(Millions of US dollars)

	2000	1999	1998
Cash flows from operating activities			
Net income	**3,312**	**1,062**	**729**
Adjustments for non-cash items			
Depreciation, depletion and amortization	838	598	587
Equity share in (income) loss of affiliates	(230)	(88)	20
Loss on disposal and impairment of assets	247	49	183
Deferred income taxes	(18)	(115)	(1)
Non-cash currency translation loss	(29)	(37)	(387)
Non-cash investing activities	(177)	(92)	(465)
Exploratory expense	130	61	51
All other items – net	25	(12)	35
Changes in operating assets and liabilities:			
Accounts and notes receivable	(1,213)	(209)	978
Inventories	(50)	(25)	357
Accounts payable	541	147	(633)
Taxes payable	(195)	(71)	(794)
Other current assets and liabilities	(515)	32	(218)
Net cash provided by operating activities	**2,666**	**1,300**	**442**
Cash flows from investing activities			
Capital expenditures	(1,674)	(766)	(586)
Proceeds from sale of property, plant and equipment	10	41	20
Purchases of investments	(197)	(390)	(272)
Proceeds from sale of investments	47	250	109
Acquisitions of subsidiaries, net of cash acquired	(98)	(10)	(50)
Net cash used in investing activities	**(1,912)**	**(875)**	**(779)**
Cash flows from financing activities			
Net movements of short-term borrowings	113	(260)	42
Proceeds from issuance of long-term debt	291	549	474
Principal payments of long-term debt	(439)	(189)	(267)
Dividends paid	(118)	(21)	(40)
Financing received from stockholders under privatization tender	50	102	-
Purchase of treasury stock	(1,021)	(150)	(63)
Proceeds from sale of treasury stock	1,005	27	38
Other – net	(7)	(6)	(37)
Net cash (used in) provided by financing activities	**(126)**	**52**	**147**
Effect of exchange rate changes on cash and cash equivalents	(28)	(33)	(37)
Net increase (decrease) in cash and cash equivalents	**600**	**444**	**(227)**
Cash and cash equivalents at beginning of year	537	93	320
Cash and cash equivalents at end of year	**1,137**	**537**	**93**

Supplemental disclosures of cash flow information			
Interest paid	170	134	189
Income taxes paid	644	214	165

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, associates and jointly controlled entities (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 undertook a share exchange program to increase its shareholding in each of the twenty-four founding subsidiaries to 100%.

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

Business and economic environment

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

The Russian Federation and other former Soviet Union republics have also been experiencing political change and macro-economic instability.

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

The accompanying financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. Among other things, this includes assessment of collectability of accounts receivable and provisions for taxes (including penalties and interest). The impact on the Group of the current and future business environments may differ from management's assessment and such differences may be significant.

Basis of preparation

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

These financial statements are not the statutory financial statements of the Company which are prepared annually and presented in accordance with Russian accounting regulations ("RAR"). The statutory financial statements of the Company for 2000, 1999 and 1998 have been filed with appropriate authorities.

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

Note 2 Summary of significant accounting policies

Principles of consolidation

The financial position and results of subsidiaries of which the Company directly or indirectly owns more than 50% of 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 voting interest and over which the Company exercises significant influence but not control, are accounted for using the equity method of accounting. Investments in other companies are included in "Investments" at cost or fair value.

Use of estimates

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

Revenue recognition

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

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

Foreign currency translation

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

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

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

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

For operations in the Russian Federation or other economies considered to be hyperinflationary, monetary assets and liabilities have been translated into US dollars at the rate prevailing at each balance sheet date. Non-monetary assets and liabilities have been translated into US dollars at historical rates. Revenues, expenses and cash flows have been translated into US dollars at rates, which approximate actual rates at the date of the transaction. Translation differences resulting from the use of these rates are included in the consolidated 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, assets and liabilities are generally translated into US dollars at year-end exchange rates and revenues and expenses are translated at average exchange rates for the year. Resulting translation adjustments are reflected as a separate component of stockholders' equity.

Note 2 Summary of significant accounting policies (continued)

As of December 31, 2000, 1999 and 1998, exchange rates of 28.16, 27.00 and 20.65 Russian rubles, respectively to the US dollar have been used for translation purposes.

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

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

Cash and cash equivalents

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

Cash with restrictions on immediate use

Cash funds for which restrictions on immediate use exist are accounted for within other non-current assets and consist of open lines of credit and deposits with credit institutions that do not reduce the balance on loan accounts.

Accounts and notes receivable

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

Inventories

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

Investments

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

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

Note 2 Summary of significant accounting policies (continued)

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

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

Property, plant and equipment

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

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

Production and related overhead costs are expensed as incurred.

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

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

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

Goodwill and intangible assets

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

Note 2 Summary of significant accounting policies (continued)

Impairment of long-lived assets

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

Deferred income taxes

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

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

Interest-bearing borrowings

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

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

Pension benefits

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

Note 2 Summary of significant accounting policies (continued)

Treasury stock

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

Earnings per share

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

Contingencies

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

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

Environmental expenditures

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

Recent accounting pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activities"*. This SFAS, as amended by SFAS No. 137, *"Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB statement No. 133",* and by SFAS No. 138, *"Accounting for Certain Derivative Instruments and Certain Hedging Activities – an Amendment of FASB statement No. 133"*, establishes accounting and reporting standards for derivative instruments and hedging activities and require recognition of all derivatives as assets or liabilities in the balance sheet and measurement of those instruments at fair value. SFAS No. 137 delays the required implementation date by one year, making it effective for fiscal years beginning after June 15, 2000. The Company does not expect adoption to have a significant effect on its consolidated balance sheets or consolidated statements of income. The Group will adopt these standards in the financial year beginning January 1, 2001.

(Millions of US dollars, except as indicated)

Note 2 Summary of significant accounting policies (continued)

In June 2000, the FASB issued SFAS No.140, *"Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – a replacement of FASB Statement 125"*. SFAS No.140 revises the standards for accounting for transfers of assets and extinguishments of liabilities and requires companies to disclose financial assets pledged as collateral separately from other assets. SFAS No.140 is effective for transfers and extinguishments after March 31, 2001, and for disclosure of assets pledged for fiscal years ending after December 15, 2000. Information about securitized assets is disclosed in notes 7 and 8.

In June 2001, the FASB issued SFAS No. 141, *"Business Combinations"*, which requires that business combinations be recorded using the Purchase method of accounting. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001 and will impact the Group in the financial year beginning January 1, 2002.

In June 2001, the FASB issued SFAS No. 142, *"Goodwill and Other Intangible Assets"*. SFAS No. 142 revises the accounting standards for intangible assets that are acquired individually or with a group of other assets, other than those acquired in a business combination, upon their acquisition and thereafter. SFAS No.142 applies to fiscal years beginning after December 15, 2001. The Group will adopt this standard in the financial year beginning January 1, 2002.

In July 2001, the FASB issued SFAS No. 143, *"Accounting for Asset Retirement Obligations"* SFAS No. 143 sets standards for recognizing asset retirement obligations in financial statements and is effective for fiscal year beginning after June 15, 2002. The Group will adopt the standard in the financial year beginning January 1, 2003.

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, 2000	As of December 31, 1999
Cash held in Russian rubles	142	227
Cash held in other currencies	995	310
Total cash and cash equivalents	**1,137**	**537**

Note 4 Non-cash transactions

The consolidated statement of cash flows excludes the effect of non-cash transactions. The following table shows the distribution of such non-cash transactions:

	Year ended December 31, 2000	Year ended December 31, 1999	Year ended December 31, 1998
Settlement of amounts payable through exchange of goods	1,224	740	2,362
Net non-cash investing activities	177	92	465
Total non-cash transactions	**1,401**	**832**	**2,827**

(Millions of US dollars, except as indicated)

Note 4 Non-cash transactions (continued)

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

	Year ended December 31, 2000	**Year ended December 31, 1999**	**Year ended December 31, 1998**
Net cash used in investing activities	1,912	875	779
Net non-cash investing activities	177	92	465
Net cash and non-cash investing activities	**2,089**	**967**	**1,244**

Note 5 Investments

	As of December 31, 2000	**As of December 31, 1999**
Investments in "equity method" affiliates and joint ventures	274	573
Other long-term investments	149	177
Total long-term investments	**423**	**750**

Investments in "equity method" affiliates and joint ventures

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

	Year ended December 31, 2000		**Year ended December 31, 1999**		**Year ended December 31, 1998**	
	Total	Group's share	Total	Group's share	Total	Group's share
Revenues	2,403	1,040	2,008	751	1,349	608
Income (loss) before income taxes	691	318	406	140	(7)	5
Less income taxes	(209)	(88)	(140)	(52)	(48)	(25)
Net income (loss)	**482**	**230**	**266**	**88**	**(55)**	**(20)**

	As of December 31, 2000		**As of December 31, 1999**	
	Total	Group's share	Total	Group's share
Current assets	514	213	767	306
Property, plant and equipment, net	1,188	598	1,464	717
Other non-current assets	32	14	59	28
Total assets	1,734	825	2,290	1,051
Short-term debt	2	-	37	10
Other current liabilities	275	112	412	144
Long-term debt	785	418	566	270
Other non-current liabilities	48	21	112	54
Net assets	**624**	**274**	**1,163**	**573**

(Millions of US dollars, except as indicated)

Note 6 Property, plant and equipment

	At cost		Net	
	As of December 31, 2000	**As of December 31, 1999**	**As of December 31, 2000**	**As of December 31, 1999**
Exploration and Production:				
Western Siberia	10,128	10,227	3,494	3,467
European Russia	7,138	5,566	2,645	1,839
International	657	253	553	203
Total	17,923	16,046	6,692	5,509
Refining, Marketing and Distribution:				
Western Siberia	570	436	328	227
European Russia	4,063	3,674	2,133	1,861
International	1,344	1,090	574	374
Total	5,977	5,200	3,035	2,462
Other:				
Western Siberia	185	160	123	99
European Russia	52	56	43	47
International	25	32	13	12
Total	262	248	179	158
Total property, plant and equipment	**24,162**	**21,494**	**9,906**	**8,129**

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

	As of December 31, 2000	**As of December 31, 1999**
Short-term borrowings	623	460
Current portion of long-term debt	206	268
Total short-term borrowings and current portion of long-term debt	**829**	**728**

The majority of short-term borrowings are loans from various third parties denominated in rubles and are secured by export sales, property, plant and equipment and securities. Annual interest rates on loans are both fixed and floating and vary from 6.5% to 18.0%.

(Millions of US dollars, except as indicated)

Note 8 Long-term debt

	As of December 31, 2000	As of December 31, 1999
Long-term loans and borrowings from third parties (including loans from banks in the amount of $374 million and $529 million as of December 31, 2000 and 1999, respectively)	755	917
Long-term loans and borrowings from related parties	5	233
3.5% Convertible US dollar bonds, maturing 2002	284	270
1% Convertible US dollar bonds, maturing 2003	445	414
Variable interest unsecured ruble bonds, maturing 2003	107	111
Long-term promissory notes	-	24
Capital lease obligation	93	68
Total long-term debt	1,689	2,037
Current portion of long-term debt	(206)	(268)
Total non-current portion of long-term debt	**1,483**	**1,769**

Long-term loans and borrowings

Long-term loans and borrowings are primarily repayable in US dollars, maturing from 2000 through 2025 and are secured by export sales, property, plant and equipment and securities. The weighted-average interest rate on long-term loans and borrowings from third parties was 6.91% and 8.18% per annum as of December 31, 2000 and 1999, respectively; the weighted-average interest rate on long-term loans and borrowings from related parties was 4.20% and 2.81% per annum as of December 31, 2000 and 1999, respectively.

Included in long-term loans and borrowings from related parties as of December 31, 1999 was an amount of $180 million due to a bank in which the Company owns 16.6% of the common stock. This amount was repaid during 2000.

Amounts received in loans and borrowings during the years ended December 31, 2000, 1999 and 1998 were $291 million, $549 million and $474 million, respectively.

Annual maturities of total long-term debt during the next five years, including the portion classified as current, are $206 million in 2001, $369 million in 2002, $680 million in 2003, $74 million in 2004, $70 million in 2005 and $290 million thereafter.

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. 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. In both cases, 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 130.323% of the face value in respect of the bonds issued on May 6, 1997 and 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 early redemption charges.

(Millions of US dollars, except as indicated)

Note 8 Long-term debt (continued)

The carrying amount of the bonds is being accreted to their redemption value with the accreted amount being charged to the consolidated income statement.

Group companies held sufficient treasury stock throughout 2000 and 1999 to permit the full conversion of the bonds to GDRs.

Ruble bonds

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

Note 9 Taxes

Tax legislation in the Russian Federation together with its interaction with tax legislation in other countries in which the Group operates, does not enable the Company to file income tax returns on a consolidated basis.

The statutory income tax rate applicable to the Company was 30% from April 1, 1999 to December 31, 2000 and 35% from January 1, 1998 to March 31, 1999. Under Russian legislation, an operating loss may be used fully or partially in any of the five subsequent tax years to offset up to 50% of the taxable profit in that year after including tax concessions.

Domestic and foreign components of income before income taxes and income taxes are shown below:

	Year ended December 31, 2000	**Year ended December 31, 1999**	**Year ended December 31, 1998**
Domestic	3,791	1,342	1,042
Foreign	72	(93)	(165)
Income before income taxes	**3,863**	**1,249**	**877**
Current			
Domestic	554	284	147
Foreign	15	18	2
Current income taxes	569	302	149
Deferred			
Domestic	(27)	(106)	(1)
Foreign	9	(9)	-
Deferred income taxes	(18)	(115)	(1)
Total income taxes	**551**	**187**	**148**

(Millions of US dollars, except as indicated)

Note 9 Taxes (continued)

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

	Year ended December 31, 2000	**Year ended December 31, 1999**	**Year ended December 31, 1998**
Income before income taxes	3,863	1,249	877
Notional income tax at Russian statutory rates	1,159	375	307
Increase (reduction) in income tax due to:			
Non-deductible items	172	95	25
Domestic and foreign rate differences	(409)	(135)	44
Foreign currency gains (losses)	17	(89)	(273)
Effect of rate changes	7	(13)	-
Investment tax credits	(417)	(56)	(20)
Change in valuation allowance	4	10	65
Other	18	-	-
Total income taxes	**551**	**187**	**148**

Taxes other than income taxes are:

	Year ended December 31, 2000	**Year ended December 31, 1999**	**Year ended December 31, 1998**
Royalty tax	259	168	214
Mineral replacement tax	150	114	75
Road users’ tax	179	87	87
Social taxes and contributions	198	78	76
Property tax	50	32	66
Other taxes and contributions	214	48	225
Taxes other than income taxes	**1,050**	**527**	**743**

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

	As of December 31, 2000	**As of December 31, 1999**
Other current assets	142	36
Deferred income tax assets – non-current	201	79
Other current liabilities	(108)	(24)
Deferred income tax liabilities – non-current	(284)	(146)
Net deferred income tax liability	**(49)**	**(55)**

(Millions of US dollars, except as indicated)

Note 9 Taxes (continued)

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

	As of December 31, 2000	**As of December 31, 1999**
Accounts receivable	87	-
Long-term liabilities	105	70
Inventories	55	10
Property, plant and equipment	50	11
Account payable	17	29
Long-term investments	4	3
Other current assets	3	10
Other	2	2
Operating loss carry forward	69	22
Total gross deferred income tax assets	392	157
Less valuation allowance	(49)	(42)
Deferred income tax assets	**343**	**115**
Property, plant and equipment	(257)	(133)
Accounts payable	(54)	-
Accounts and notes receivable	(52)	(14)
Investments	(23)	(7)
Other current liabilities	-	(10)
Other non-current assets	-	(2)
Other	(6)	(4)
Deferred income tax liabilities	**(392)**	**(170)**
Net deferred income tax liability	**(49)**	**(55)**

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 that not that Group companies will realize the benefits of the deductible differences, net of the existing valuation allowances as of December 31, 2000 and 1999.

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

At December 31, 2000, the Group has net operating loss carryforwards of $101 million of which $72 million expire during 2003, $14 million expire during 2004 and $15 million expire during 2005 and beyond.

(Millions of US dollars, except as indicated)

Note 10 Pension benefits

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

The pension related expense was as follows:

	Year ended December 31, 2000	Year ended December 31, 1999	Year ended December 31, 1998
Service cost	7	7	14
Interest cost	22	23	45
Less expected return on plan assets	(3)	(2)	(1)
Amortization of prior service cost	5	5	13
Total expense	**31**	**33**	**71**

An independent actuary has assessed the benefit obligations and plan assets for the fund as of December 31, 2000 and 1999 as summarized below:

	Year ended December 31, 2000	Year ended December 31, 1999
Benefit obligations		
Benefit obligations at January 1	121	121
Effect of exchange rate changes	(5)	(32)
Service cost	7	7
Interest cost	22	23
Plan amendments	7	-
Actuarial (gain) loss	(38)	4
Benefits paid	(4)	(2)
Benefit obligations at December 31	**110**	**121**
Plan assets		
Fair value of plan assets at January 1	12	5
Effect of exchange rate changes	(1)	(2)
Return on plan assets	5	4
Employer contributions	12	7
Benefits paid	(4)	(2)
Fair value of plan assets at December 31	**24**	**12**
Funded status	(86)	(109)
Unamortized prior service cost	62	63
Unrecognized actuarial (gain) loss	(38)	1
Net amount recognized	**(62)**	**(45)**
Amounts recorded in the consolidated balance sheets were:		
Accrued benefit liabilities	(62)	(57)
Intangible assets	-	12
Net amount recognized	**(62)**	**(45)**

(Millions of US dollars, except as indicated)

Note 10 Pensions benefits (continued)

	Year ended December 31, 2000	Year ended December 31, 1999
Assumptions as of December 31		
Discount rate	15.3%	19.5%
Expected return on plan assets	22.0%	22.0%

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

Note 11 Stockholders' equity

Dividends and dividend limitations

Profits available for distribution to common stockholders and for other assignations 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 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 45,686 million rubles, 13,404 million rubles and 2,067 million rubles, respectively for 2000, 1999 and 1998, pursuant to the statutory financial statements, which at the US dollar exchange rates as of December 31, 2000, 1999 and 1998 amounted to $1,622 million, $496 million and $100 million, respectively.

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

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

At the annual stockholders' meeting on June 29, 1999, dividends were declared for 1998 in the amount of 0.25 rubles per common share and 2.67 rubles per preferred share, which at the date of the decision was equivalent to $0.01 and $0.11, respectively.

Stockholders' rights

Holders of preferred stock have the right to receive annual fixed dividends. This fixed dividend is 10% of the net income of the reporting year or the dividend paid on each share of common stock, whichever is the greater. In addition, they have voting rights on matters related to restructuring or liquidation of the Company or amendments to the charter of the Company which would adversely affect their rights.

Note 11 Stockholders' equity (continued)

Transactions involving treasury stock

During 2000, the Group sold a group of companies to LUKOIL - GARANT, a related party. The assets and liabilities of the group of companies included 45,108,103 shares of common stock of the Company (accounted for as Treasury Stock of the Group prior to the sale) and a contingent liability to purchase a further 7,876,000 shares of common stock of the Company from the Company on November 3, 2003 at an effective amount of $68.14 per share. The contingent liability relates to an option agreement between one of the companies sold and the Group contracted as part of the sale terms. The fair value of the net assets of the companies sold, including the contingent liability, was equivalent to the amount paid by LUKOIL - GARANT for the group of companies.

Earnings per share

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

	Year ended December 31, 2000	Year ended December 31, 1999	Year ended December 31, 1998
Net income	3,312	1,062	729
Dividends on preferred shares	(47)	(8)	(11)
Net income related to common shares	3,265	1,054	718
Add back convertible debt interest (net of tax at effective rate)			
3.5% Convertible US dollar bonds, maturing 2002	17	17	16
1% Convertible US dollar bonds, maturing 2003	23	23	21
Total diluted net income	3,305	1,094	755
Weighted average number of outstanding common shares (thousands of shares)	676,341	622,990	622,352
Add back treasury shares held in respect of convertible debt (thousands of shares)	21,675	21,675	21,675
Weighted average number of outstanding common shares, after dilution (thousands of shares)	698,016	644,665	644,027

Note 12 Financial instruments

Fair value

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

The fair value of long-term receivables included in other non-current assets approximates the amounts disclosed in the consolidated financial statements as a result of discounting using estimated market interest rates for similar financing arrangements. Long-term debt is the only category of financial instruments whose fair value differs materially from the amount disclosed in the consolidated financial statements. The estimated fair value of long-term debt as of December 31, 2000 was $1,515 million as a result of discounting using estimated market interest rates for similar financing arrangements.

Note 12 Financial instruments (continued)

Letters of credit and financial guarantees

As of December 31, 2000 and 1999, Group companies were contingently liable for performance under letters of credit and other financial guarantees totaling approximately $5 million and $356 million, respectively. Management does not believe it is practicable to estimate the fair value of these financial instruments and does not expect any unrecorded material losses to be incurred by Group companies in this respect.

Note 13 Business combinations

In December 2000, the Group acquired 72% of Getty Petroleum Marketing Inc. for $53 million. Getty Petroleum Marketing Inc. is a marketing and distribution company supplying 1,260 retail outlets which it leases throughout the Northeast and Mid Atlantic regions of the United States of America. Subsequent to the year end, the Group acquired the remaining 28% of Getty Petroleum Marketing Inc. for $20 million.

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

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

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

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

In October 1999, the Group was part of a consortium which acquired 58% of the company which owns the Neftochim Burgas AD refinery located in Bulgaria for $81 million.

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

In April 1998, the Group acquired 62% of the company which owns the Petrotel SA refinery located in Romania for $53 million.

All of these acquisitions have been accounted for using the purchase method of accounting.

(Millions of US dollars, except as indicated)

Note 13 Business combinations (continued)

The table below reflects the unaudited pro forma combined results of the Group as if the Getty Petroleum Marketing Inc., OAO KomiArcticOil, OAO Ritek, ZAO LUKOIL - Perm, OAO Odessa Oil Refinery Plant, Neftochim Burgas AD, OAO KomiTEK and Petrotel SA acquisitions had been completed as of January 1, 1998.

	Year ended December 31, 2000 (Unaudited)	Year ended December 31, 1999 (Unaudited)	Year ended December 31, 1998 (Unaudited)
Revenues	14,984	9,874	9,039
Net income	3,346	1,027	776
Basic earnings per share	4.88	1.63	1.23
Diluted earnings per share	4.78	1.63	1.23

Note 14 Commitments and contingencies

Capital expenditure and investment programs

Under the terms of respective purchase agreements, the Group is required to invest $200 million in the Petrotel SA refinery over a five-year period and $268 million in the Neftochim Burgas AD refinery prior to 2003. As of December 31, 2000 the Group's commitments under these agreements were $125 million and $232 million, respectively.

Group companies have commitments of $75 million in 2001, $46 million in 2002 and $5 million in 2003 for the construction of oil tankers.

Group companies have commitments of $35 million in 2001 for the construction of pipelines for oil products.

Group companies have commitments to purchase refinery equipment for Russian refineries in 2001 in the amount of $202 million.

Group companies have commitments for capital expenditure contributions in the amount of $1,153 million to be spent in the Caspian region over the next 23 years.

Group companies have investment commitments relating to oil deposits in Iraq of $495 million to be spent within 3 years from when exploitation becomes possible.

Operating lease obligations

A Group company has commitments of $920 million for the lease of petroleum distribution outlets over the next 15 years. Commitments for minimum rentals under these leases as of December 31, 2000 are as follows:

	As of December 31, 2000
2001	61
2002	62
2003	62
2004	62
2005	61
2005 and beyond	612

Note 14 Commitments and contingencies (continued)

Insurance

The insurance industry in the Russian Federation and certain other areas where the Group has operations is in the course of development. Many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, for business interruption, for third party liability in respect of property and for environmental damage arising from accidents on Group property or relating to Group operations. Until Group companies are able to obtain adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Environmental liabilities

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

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

In respect of disassembling equipment, winding up production and restoring work sites, potential expenses for Group companies as of December 31, 2000 and 1999 were estimated at $964 million and $1,273 million, respectively. Of these amounts, $200 million and $152 million are included in accumulated depreciation, depletion and amortization as of December 31, 2000 and 1999, respectively.

As part of the agreement to purchase the Neftochim Burgas AD refinery the Group is required to invest $40 million to the environmental protection program at this refinery.

Social assets

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

Taxation environment

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

The Group has implemented tax planning and management strategies based on existing legislation. Management believes that it has adequately met and provided for tax liabilities based on its interpretation of such legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

Note 15 Related party transactions

Sales of oil and oil products to related parties were $44 million, $215 million and $157 million for the years ended December 31, 2000, 1999 and 1998, respectively.

Purchases of oil and oil products from related parties were $441 million, $273 million and $202 million for the years ended December 31, 2000, 1999 and 1998, respectively.

Purchases of construction services from related parties were $355 million, $118 million and $337 million for the years ended December 31, 2000, 1999 and 1998, respectively.

Amounts receivable from related parties were $121 million and $120 million as of December 31, 2000 and 1999, respectively. Amounts payable to related parties were $83 million and $50 million as of December 31, 2000 and 1999, respectively.

LUKOIL - GARANT is a defined benefit pension fund established for the benefit of employees of the Group. Transactions and balances with the fund are disclosed in Notes 10, 11 and 17.

ZAO LUKOIL - Perm, a subsidiary in 2000, was an associated company in 1999 and 1998. Members of the management of regional Group companies own the majority of the outstanding shares of the other corporate shareholder of ZAO LUKOIL - Perm. The shares were issued to management as a bonus during the privatization of the regional Group companies.

As of December 31, 2000 and 1999 the Government of the Russian Federation owned respectively 16% and 28% 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 the economy. 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. Information on these transactions is not disclosed as related party transactions.

Note 16 Segment information

Presented below is information about the Group's operating segments for the years ended December 31, 2000, 1999 and 1998, in accordance with SFAS No. 131, *"Disclosures about Segments of an Enterprise and Related Information"*. Operating segments have been determined based on the nature of their operations. The performance of these operating segments is assessed by management on a regular basis. Exploration for and production of primarily crude oil is carried out by operations included in the Exploration and production segment. Processing of crude oil into refined products, purchasing, selling and transportation of crude oil and refined petroleum products is carried out by operations in the Refining, marketing and distribution segment.

(Millions of US dollars, except as indicated)

Note 16 Segment information (continued)

Operating segments

2000	Exploration and production	Refining marketing and distribution	Other	Elimination	Consolidated
Sales					
Third parties	834	12,011	165	-	13,010
Inter-segment	2,313	981	70	(3,364)	-
Total sales	3,147	12,992	235	(3,364)	13,010
Depletion, depreciation and amortization	611	221	6	-	838
Interest expense	37	124	32	(40)	153
Income taxes	154	384	13	-	551
Net income	794	2,727	(96)	(113)	3,312
Total assets	9,555	9,375	507	(2,328)	17,109
Capital expenditure	945	909	30	(17)	1,867

1999	Exploration and production	Refining marketing and distribution	Other	Elimination	Consolidated
Sales					
Third parties	635	6,542	111	-	7,288
Inter-segment	1,251	426	2	(1,679)	-
Total sales	1,886	6,968	113	(1,679)	7,288
Depletion, depreciation and amortization	471	127	-	-	598
Interest expense	26	122	9	(10)	147
Income taxes	54	127	6	-	187
Net income	139	851	72	-	1,062
Total assets	7,817	6,246	173	(1,733)	12,503
Capital expenditure	388	466	4	-	858

1998	Exploration and production	Refining marketing and distribution	Other	Elimination	Consolidated
Sales					
Third parties	1,411	5,001	227	-	6,639
Inter-segment	1,400	1,590	14	(3,004)	-
Total sales	2,811	6,591	241	(3,004)	6,639
Depletion, depreciation and amortization	483	101	3	-	587
Interest expense	32	189	-	(3)	218
Income taxes	99	45	4	-	148
Net income	881	(144)	(8)	-	729
Total assets	6,493	4,152	20	(1,022)	9,643
Capital expenditure	675	373	3	-	1,051

(Millions of US dollars, except as indicated)

Note 16 Segment information (continued)

Geographical segments

	2000	1999	1998
Sales of crude oil within Russia	1,471	989	707
Export of crude oil and sales of oil by foreign subsidiaries	4,380	3,812	2,555
Sales of refined product within Russia	2,287	520	1,818
Export of refined product and sales of refined products by foreign subsidiaries	3,965	1,288	809
Other sales within Russia	830	576	688
Other export sales and other sales of foreign subsidiaries	77	103	62
Total sales	13,010	7,288	6,639

2000	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	176	4,628	8,206	-	13,010
Inter-segment	1,540	4,876	68	(6,484)	-
Total sales	1,716	9,504	8,274	(6,484)	13,010
Depletion, depreciation and amortization	332	390	116	-	838
Interest expense	1	84	96	(28)	153
Income taxes	71	456	24	-	551
Net income	232	3,151	48	(119)	3,312
Total assets	4,757	11,070	3,612	(2,330)	17,109
Capital expenditure	377	1,172	335	(17)	1,867

1999	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	222	2,403	4,663	-	7,288
Inter-segment	969	2,710	24	(3,703)	-
Total sales	1,191	5,113	4,687	(3,703)	7,288
Depletion, depreciation and amortization	338	187	73	-	598
Interest expense	4	69	74	-	147
Income taxes	23	155	9	-	187
Net income	611	553	(102)	-	1,062
Total assets	4,302	7,742	2,585	(2,126)	12,503
Capital expenditure	214	526	118	-	858

(Millions of US dollars, except as indicated)

Note 16 Segment information (continued)

1998	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	980	2,662	2,997	-	6,639
Inter-segment	1,105	2,236	5	(3,346)	-
Total sales	2,085	4,898	3,002	(3,346)	6,639
Depletion, depreciation and amortization	395	168	24	-	587
Interest expense	28	133	57	-	218
Income taxes	49	97	2	-	148
Net income	921	(25)	(167)	-	729
Total assets	4,596	4,748	1,622	(1,323)	9,643
Capital expenditure	357	354	340	-	1,051

Note 17 Subsequent events

Shares of common stock

The Company has acquired 74% of the shares in OAO Arkhangelskgeoldobycha in exhange for 17,710,697 shares of common stock and cash consideration of $130 million. The Company has exchanged 720,724 shares of common stock for 13% and 22% of the minority interest shareholding of OAO LUKOIL Ukhtaneftepererabotka and OAO LUKOIL - Kominefteproduct, respectively.

The shares of OAO Arkhangelskgeoldobycha were held by LUKOIL - GARANT, a related party, and LUKOIL Finance Limited, a Group company. The exchange was finalized on April 27, 2001. These shares were part of a registration of 18,600,000 shares of common stock with the Russian Federal Securities Commission on December 7, 2000. The remaining 168,579 shares will be sold to the public.

At the annual stockholders meeting on June 28, 2001 a resolution to increase the number of shares of common stock by 94,000,000 shares of par value of 0.025 rubles each was approved. The Company plans to exchange 77,211,864 of these shares for the outstanding preferred stock of the Company in the ratio of one share of common stock for one share of preferred stock. The remaining 16,788,136 shares will be sold to the public.

Business combinations

In July 2001, the Company announced its intention to acquire 100% of the share capital of Bitech Petroleum Corporation (“Bitech”) through its subsidiary, LUKOIL Overseas Holding Limited for $80 million. Bitech is a Canadian oil exploration company with operations predominantly within the Komi Republic in the Russian Federation.

(Millions of US dollars, except as indicated)

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

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

I. Capitalized costs relating to oil and gas producing activities

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

As of December 31, 1999	**International**	**Russia**	**Total**
Unproved oil and gas properties	-	34	34
Proved oil and gas properties	303	15,709	16,012
Accumulated depreciation, depletion, and amortization	(50)	(10,487)	(10,537)
Net capitalized costs	253	5,256	5,509
Group's share of "equity method" affiliates' net capitalized costs	189	351	540
Net capitalized costs	442	5,607	6,049

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

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

(Millions of US dollars, except as indicated)

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

Year ended December 31, 1998	**International**	**Russia**	**Total**
Exploration costs	-	51	51
Development costs	186	404	590
Group's share of "equity method" affiliates' costs of property acquisition, exploration and development	14	46	60
Total costs incurred	200	501	701

III. Results of operations for producing activities

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

(Millions of US dollars, except as indicated)

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

Year ended December 31, 1998	International	Russia	Total
Revenue			
Sales	29	2,505	2,534
Transfers	-	592	592
	29	3,097	3,126
Production costs (excluding production taxes)	13	1,273	1,286
Exploratory expense	-	51	51
Depreciation, depletion, and amortization	1	482	483
Taxes other than income	1	388	389
Related income taxes	5	316	321
Results of operations from producing activities (excluding corporate overhead and interest costs)	9	587	596
Group's share of "equity method" affiliates' results of operations for producing activities	(48)	54	6
Total results of operations for producing activities	(39)	641	602

IV. Reserve quantity information

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

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

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

Group companies' estimated net proved oil and gas reserves and changes thereto for the years 2000, 1999 and 1998 are shown in the table set out below.

(Millions of US dollars, except as indicated)

	International		Russia		Total	
Proved Reserves:	**Millions of barrels**	**Millions of tonnes**	**Millions of barrels**	**Millions of tonnes**	**Millions of barrels**	**Millions of tonnes**
Oil equivalent						
January 1, 1998	131	18	10,697	1,459	10,828	1,477
Revisions of previous estimates	-	-	(301)	(41)	(301)	(41)
Purchase of hydrocarbons in place	249	34	7	1	256	35
Extensions and discoveries	-	-	291	40	291	40
Production	(4)	(1)	(452)	(62)	(456)	(63)
December 31, 1998	376	51	10,242	1,397	10,618	1,448
Revisions of previous estimates	-	-	1,026	140	1,026	140
Purchase of hydrocarbons in place	-	-	1,314	179	1,314	179
Extensions and discoveries	-	-	187	26	187	26
Production	(7)	(1)	(472)	(64)	(479)	(65)
Sales of reserves	-	-	(197)	(27)	(197)	(27)
December 31, 1999	369	50	12,100	1,651	12,469	1,701
Revisions of previous estimates	277	38	(671)	(92)	(394)	(54)
Purchase of hydrocarbons in place	-	-	1,167	159	1,167	159
Extensions and discoveries	26	4	302	41	328	45
Production	(14)	(2)	(515)	(70)	(529)	(72)
Sales of reserves	-	-	(21)	(3)	(21)	(3)
December 31, 2000	**658**	**90**	**12,362**	**1,686**	**13,020**	**1,776**
Group's share of the reserves of affiliates, accounted for using the "equity method" as at December 31, 1998	179	24	427	58	606	82
Group's share in the reserves of affiliates, accounted for using the "equity method" as at December 31, 1999	179	24	797	109	976	133
Group's share in the reserves of affiliates, accounted for using the "equity method" as at December 31, 2000	184	25	295	40	479	65
Minority's share, included in the above proved reserves as at December 31, 1998	-	-	53	7	53	7
Minority's share, included in the above proved reserves as at December 31, 1999	-	-	41	6	41	6
Minority's share, included in the above proved reserves as at December 31, 2000	-	-	568	77	568	77
Proved reserves, adjusted for minority interests:						
December 31, 1998	555	75	10,616	1,448	11,171	1,523
December 31, 1999	548	74	12,856	1,754	13,404	1,828
December 31, 2000	**842**	**115**	**12,089**	**1,649**	**12,931**	**1,764**
Proved developed reserves, adjusted for minority interests:						
December 31, 1998	80	11	6,398	873	6,478	884
December 31, 1999	79	11	7,894	1,077	7,973	1,088
December 31, 2000	**196**	**27**	**8,417**	**1,148**	**8,613**	**1,175**

(Millions of US dollars, except as indicated)

V. Standardized measure of discounted future net cash flows

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

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

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

	International	Russia	Total
As of December 31, 1999			
Future cash inflows	5,556	148,295	153,851
Future production and development costs	(3,376)	(63,950)	(67,326)
Future income tax expenses	(826)	(25,147)	(25,973)
Future net cash flows	1,354	59,198	60,552
Discount for estimated timing of cash flows (10% p.a.)	(1,046)	(37,752)	(38,798)
Discounted future net cash flows	308	21,446	21,754
Group's share of "equity method" affiliates' standardized measure of discounted future net cash flows	534	1,536	2,070
Minority share in discounted future net cash flows	-	55	55

(Millions of US dollars, except as indicated)

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

	2000	**1999**	**1998**
Discounted present value as at January 1	21,754	4,072	10,870
Purchase of oil and gas reserves	2,788	3,276	147
Sales and transfers of oil and gas produced, net of production costs	(7,280)	(3,185)	(1,436)
Net changes in prices and production costs estimates	608	20,649	(12,024)
Extensions, discoveries, and improved recovery, less related costs	797	467	168
Development costs incurred during the period	458	255	1,156
Revisions of previous quantity estimates	(952)	2,559	(173)
Net change in income taxes	(1,403)	(7,286)	3,211
Other changes	435	301	301
Accretion of discount	3,030	646	1,852
Discounted present value at December 31	**20,235**	**21,754**	**4,072**