Management's discussion and analysis of financial condition and results of operations

The following represents management's analysis of the financial performance and condition of OAO LUKOIL and significant trends that may affect future performance. It should be read in conjunction with our interim consolidated financial statements and notes thereto.

References to "LUKOIL", "the Group", "the Company", "we" or "us" are references to OAO LUKOIL and its consolidated subsidiaries and associates.

All dollar amounts are in millions of US dollars, unless otherwise indicated. Tonnes of crude oil produced are translated into barrels using conversion rates characterizing the density of oil from each of our oilfields. Tonnes of crude oil purchased as well as other operational indicators expressed in barrels or barrels per day are translated into barrels using an average conversion rate of 7.33.

Forward-looking statements

This report contains forward-looking statements. Words such as "believes", "anticipates", "expects", "estimates", "intends", "plans", etc. reflect management's current estimates and beliefs, but are not guarantees of future results.

Financial highlights

	9 months of 2003	9 months of 2002	Change %	**Q3 2003**	Q3 2002	Change %
Net income	**3,065**	**1,347**	**127.5%**	**701**	**507**	**38.3%**
Net income excluding cumulative effect of change in accounting principle and gain on sale of share in Azeri, Chirag, Guneshli	**1,803**	1,347	33.9%	**701**	507	38.3%
EBITDA	**4,434**	2,663	66.5%	**1,256**	1,000	25.6%
Earnings per share of common stock (US dollars)						
Basic earnings	**3.74**	1.66	125.3%	**0.85**	0.62	37.1%
Diluted earnings	**3.68**	1.66	121.7%	**0.84**	0.62	35.5%

During the nine-month period ended September 30, 2003, net income, including the cumulative effect of change in accounting principle, was $3,065 million, which is $1,718 million more than in the same period of 2002. Net income excluding the cumulative effect of change in accounting principle was $2,933 million, or $1,586 million higher than in the same period of 2002. Net income for period ended September 30, 2003 includes a net gain on sale of our share in the Azeri, Chirag, Guneshli project in the amount of $1,130 million.

Segment information

Our operations are divided into three main business segments: (1) Exploration and Production; (2) Refining, Marketing and Distribution; (3) Chemicals. Other businesses include banking and finance, construction and other activities. Each of our three main segments is dependent on the other, with a portion of the revenues of one segment being a part of the costs of the other. In particular, our Refining, Marketing and Distribution segment purchases crude oil from our Exploration and Production segment. The prices set for these purchases reflect a combination of factors, including our need for investment capital at different entities in the Exploration and Production segment, our tax planning initiatives, the rights of minority shareholders in those entities where minority interests remain and, to a more limited extent, market factors. Accordingly, an analysis of either of these segments on a stand-alone basis could give a misleading impression of that segment's underlying financial position and results of operations. For this reason, we do not analyze either of our main segments separately in the discussion that follows, but we do present the financial data for each in Note 15 to our interim consolidated financial statements. Due to the prices we set, we believe the profitability of our Exploration and Production segment may be understated and the profits of our Refining, Marketing and Distribution segment may be overstated in that presentation.

Recent developments

In October 2003, the Group acquired 79.5% of the share capital of Beopetrol for 117 million EUR. Beopetrol is a marketing and distribution company operating in Serbia. Beopetrol owns and operates over 200 refueling stations and 8 refined products storages. In 2002 Beopetrol's sales reached 390 thousand tonnes, which allows it to control approximately 20% of Serbian retail fuel market. Under the terms of purchase agreement the Company is required to invest in Beopetrol 85 million EUR over next three years.

In September 2003, the Group acquired 100% of the share capital of MV Properties for $121 million. MV Properties is a marketing and distribution company operating in Romania. MV Properties owns and operates 75 refueling stations and 7 refined products storages.

Consolidation of the Group

In line with our strategy we continued the further consolidation of the Group:

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

- In November 2003, the Group acquired the remaining 40% of share capital of Yamalneftegazodobycha for $25 million. The acquisition increased the Group's ownership stake in Yamalneftegazodobycha to 100%. Yamalneftegazodobycha is a Russian oil and gas exploration company with significant proved undeveloped reserves predominantly within the Yamal-Nenetsky Autonomic District of Northern Russia.

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

- In August 2003, the Group acquired 25.5% of share capital of AGD in exchange for its 13.6% investment in ZAO Rosshelf and 30% investment in OOO Polar Lights Company. The carrying value of these investments was approximately $40 million. The acquisition increased the Group's ownership stake in AGD to 99.7%. AGD is a Russian oil and gas exploration company operating predominantly within the Timan-Pechora region of Northern Russia. Proved reserves associated with the acquired interest were approximately 337 million barrels.

- In June 2003, the Group acquired the remaining 27% of shares in ZAO LUKOIL-Perm from a related party, which was controlled by certain members of the Group's management, for $398 million, thereby increasing the Group's ownership stake in ZAO LUKOIL-Perm to 100%. The amount of consideration was based on an independent valuation. ZAO LUKOIL-Perm is an exploration and production company operating in European Russia. Proved reserves associated with the acquired interest were approximately 423 million barrels. The Company is also in process of merging ZAO LUKOIL-Perm with its other subsidiary, OOO "Permneft". The merger is expected to be finalized in the beginning of 2004.

- In June 2003, the Group acquired 39.4% of the outstanding shares in OAO Tebukneft and 55.4% of the outstanding shares in OAO Ukhtaneft, thereby increasing the Group's ownership stake in these companies to 85% and 85.5%, respectively. The Group also acquired 77.4% of outstanding shares in ZAO RKM-Oil. The total cost of the interests acquired in these companies was $134 million. Prior to these acquisitions, OAO Tebukneft and OAO Ukhtaneft were recorded as associated companies using the equity method of accounting. In July 2003, the Group acquired 8.9% of the outstanding shares in OAO Tebukneft, 11.7% of outstanding shares in OAO Ukhtaneft and 19.5% of outstanding shares in ZAO RKM-Oil, thereby increasing the Group's ownership stake in these companies to 93.9%, 97.2% and 96.9%, respectively. The total cost of the interests acquired in these companies was $27 million. OAO Tebukneft, OAO Ukhtaneft and ZAO RKM-Oil are exploration and production companies operating in the Komi Republic of the Russian Federation. The annual oil production of OAO Tebukneft, OAO Ukhtaneft and ZAO RKM-Oil is 1.5 million tonnes. At the time of acquisition OAO

Tebukneft, OAO Ukhtaneft and ZAO RKM-Oil had total proved reserves of approximately 242 million barrels.

- In June 2003, the Group acquired an additional 21.5% of OAO Komineft for $63 million, thereby increasing the Group's share in this company to 91.5%. OAO Komineft is an exploration and production company operating mainly in the Komi Republic of the Russian Federation.

- In June 2003, the Group acquired 1.25% of ZAO LUKOIL-AIK for approximately $1 million, thereby increasing the Group's share in this company to 51%. Prior to this acquisition ZAO LUKOIL-AIK was recorded as an associated company using the equity method of accounting. ZAO LUKOIL-AIK is an exploration and production company operating in Western Siberia. During 2002, ZAO LUKOIL-AIK extracted 2.1 million tones of crude oil. At the time of acquisition ZAO LUKOIL-AIK had total proved oil reserves of approximately 171 million barrels.

- In April 2003, the Group acquired 80.8% of OAO Yaregskaya Nefte-Titanovaya Kompaniya ("YaNTK") for $240 million, thereby increasing the Group's share in this company to 98.8%. YaNTK is a company with substantial oil and titanium reserves operating in the Komi Republic of the Russian Federation. OAO Yaregskaya Nefte-Titanovaya Kompaniya has total proved oil reserves in the amount of 133 million barrels.

Sale of the Group's share in the PSA Azeri, Chirag, Guneshli

On December 20, 2002, a Group company entered into a contract with INPEX Corporation, a Japanese company, to sell the Group company's 10% interest in the PSA operated by the Azerbaijan International Operating Company. The purpose of this PSA is to explore and develop the Azeri and Chirag fields and the deep-water portion of the Guneshli field in the Azeri sector of the Caspian Sea. The sale was completed on April 28, 2003 for net $1,337 million cash, resulting in the recognition of a net gain of $1,130 million.

Change in accounting principle

Effective January 1, 2003, the Group adopted SFAS No. 143 "Accounting for asset retirement obligations", which resulted in a cumulative-effect adjustment to increase net income by $132 million. The effect of adoption also included an increase of net property, plant and equipment of $330 million, minority interest of $12 million, non-current deferred income tax assets and liabilities of a net $46 million and the establishment of an additional asset retirement obligation of $140 million.

Main macroeconomic factors affecting our results of operations

Change in the price of crude oil and refined products*

	9 months of 2003	9 months of 2002	Change %	**Q3 2003**	Q3 2002	Change %
	(in US dollars per bbl, except for figures in percent)					
Brent crude	**28.62**	24.42	17.2%	**28.38**	26.91	5.5%
Urals crude (CIF Mediterranean)*	**26.71**	23.18	15.2%	**27.05**	25.81	4.8%
	(in US dollars per metric tonne, except for figures in percent)					
Fuel oil 3.5% (FOB Rotterdam)	**150.19**	129.88	15.6%	**153.42**	146.97	4.4%
Diesel fuel (FOB Rotterdam)	**251.18**	198.67	26.4%	**235.58**	222.65	5.8%
High-octane gasoline (FOB Rotterdam)	**299.41**	237.31	26.2%	**302.80**	267.67	13.1%

Source: Platts, Cortes

* The Company sells crude oil on foreign markets on various delivery terms. Thus the average realized sale price of oil on international markets differs from the average price of Urals crude (CIF Mediterranean).

Changes in the US dollar-ruble exchange rate and inflation

A substantial part of our revenues are either denominated in US dollars or are correlated to some extent with US dollar crude oil prices, while most of our costs in the Russian Federation are settled in Russian rubles. Therefore, the movements of the ruble inflation and exchange rates can significantly affect the results of our operations. In particular, our operating margins are generally adversely affected by the real appreciation of the ruble against the US dollar, because this will generally cause our costs to increase in real terms relative to our revenues. It should be noted that in contrast to previous periods, during the first nine months of 2003 this process was exacerbated by the fact that inflation was accompanied by an increase (rather than a decline) in the exchange rate of the ruble to the US dollar.

The following table gives data on inflation in Russia, the nominal change in the ruble–dollar exchange rate, and the level of real appreciation.

	9 months of 2003	9 months of 2002	**Q3 2003**	Q3 2002
Ruble inflation (CPI)	8.59%	10.42%	0.60%	1.20%
Nominal change in exchange rate (ruble to US dollar)	-3.69%	4.96%	0.87%	0.60%
Real appreciation of the rate (ruble to US dollar)	12.59%	5.20%	-0.27%	0.60%
Average exchange rate for the period (ruble to US dollar)	30.99	31.20	30.48	31.54
Exchange rate at the end of the period (ruble to US dollar)	–	–	30.61	31.64

Change in tax rates and export tariffs

		9 months of 2003*		9 months of 2002*
Export tariffs on crude oil	$/tonne	29.58	$/tonne	16.31
Export tariffs on oil products				
Light distillates (gasoline), middle distillates (jet fuel), diesel fuel and gasoils	$/tonne	26.62	$/tonne	26.21
Liquid fuels (fuel oil)	$/tonne	26.62	$/tonne	12.40
Excise on oil products				
High-octane gasoline	RUR/tonne	3,000.00	RUR/tonne	2,072.00
Low-octane gasoline	RUR/tonne	2,190.00	RUR/tonne	1,512.00
Diesel fuel	RUR/tonne	890.00	RUR/tonne	616.00
Motor oils	RUR/tonne	2,440.00	RUR/tonne	1,680.00
Mineral extraction tax	RUR/tonne	799.80	RUR/tonne	638.43

		Q3 2003*		Q3 2002*
Export tariffs on crude oil	$/tonne	25.67	$/tonne	21.50
Export tariffs on oil products				
Light distillates (gasoline), middle distillates (jet fuel), diesel fuel and gasoils	$/tonne	23.11	$/tonne	29.46
Liquid fuels (fuel oil)	$/tonne	23.11	$/tonne	13.12
Excise on oil products				
High-octane gasoline	RUR/tonne	3,000.00	RUR/tonne	2,072.00
Low-octane gasoline	RUR/tonne	2,190.00	RUR/tonne	1,512.00
Diesel fuel	RUR/tonne	890.00	RUR/tonne	616.00
Motor oils	RUR/tonne	2,440.00	RUR/tonne	1,680.00
Mineral extraction tax	RUR/tonne	791.49	RUR/tonne	760.80

* average values

In the first nine months ended September 30, 2003 the Group's tax burden rose significantly compared to the previous period.

The average crude oil export tariffs increased in the first nine months of 2003 compared to same period of 2002 by 81.4%, reaching $29.58 per tonne. Export tariffs on gasoline, kerosene and jet fuel, diesel fuel, and gasoils rose by 1.6%. Export tariffs on fuel oil rose by 114.7%. Excise on oil products rose by 45%.

Nine months ended September 30, 2003 compared to the nine months ended September 30, 2002

The table below details certain income and expense items from our consolidated statements of income for the periods indicated.

	9 months of			
	2003		2002	
Revenues				
Sales (including excise and export tariffs)	16,136	99.2%	11,033	99.3%
Equity share in income of associates	138	0.8%	75	0.7%
Total revenues	**16,274**	**100,0%**	**11,108**	**100.0%**
Costs and other deductions				
Operating expenses	(2,054)	(12.6)%	(1,828)	(16.5)%
Costs of purchased crude oil, petroleum and chemical products	(4,300)	(26.4)%	(1,749)	(15.7)%
Transportation expenses	(1,483)	(9.1)%	(1,000)	(9.0)%
Selling, general and administrative expenses	(1,231)	(7.6)%	(970)	(8.7)%
Depreciation, depletion and amortization	(685)	(4.2)%	(704)	(6.3)%
Taxes other than income taxes	(1,776)	(10.9)%	(1,436)	(12.9)%
Excise and export tariffs	(2,105)	(12.9)%	(1,378)	(12.4)%
Exploration expense	(77)	(0.5)%	(70)	(0.6)%
Gain from sale of interest in Azeri Chirag Guneshli	1,130	6.9 %	–	–
Loss on disposal and impairment of assets	(67)	(0.4)%	(68)	(0.6)%
Income from operating activities	**3,626**	**22.3 %**	**1,905**	**17.1%**
Interest expense	(214)	(1.3)%	(175)	(1.6)%
Interest and dividend income	99	0.6 %	103	0.9 %
Currency translation gain	123	0.8 %	36	0.3 %
Other non-operating income	31	0.2 %	60	0.5 %
Minority interest	(31)	(0.2)%	(42)	(0.4)%
Income before income taxes	**3,634**	**22.3 %**	**1,887**	**17.0 %**
Current income taxes	(686)	(4.2)%	(627)	(5.6)%
Deferred income taxes	(15)	(0.1)%	87	0.8 %
Total income tax expense	**(701)**	**(4.3)%**	**(540)**	**(4.9)%**
Income before cumulative effect of change in accounting principle	**2,933**	**18.0%**	**1,347**	**12.1%**
Cumulative effect of change in accounting principle, net of tax	132	0.8%	–	
Net income	**3,065**	**18.8%**	**1,347**	**12.1%**
Per share of common stock (in US dollars)				
Income before cumulative effect of change in accounting principle				
Basic	3.58		1.66	
Diluted	3.52		1.66	
Net income				
Basic	3.74		1.66	
Diluted	3.68		1.66	

The analysis of the main financial indicators of the financial statements is provided below.

Sales revenues

Sales breakdown	9 months of 2003		9 months of 2002	
	(millions of US dollars)			
Crude oil				
Export and sales on international markets other than CIS	4,513	28.0%	3,088	28.0%
Export and sales to CIS	336	2.1%	101	0.9%
Domestic sales	288	1.7%	362	3.3%
	5,137	**31.8%**	**3,551**	**32.2%**
Oil products				
Export and sales on international markets	6,870	42.6%	4,403	39.9%
Domestic sales	2,581	16.0%	2,017	18.3%
	9,451	**58.6%**	**6,420**	**58.2%**
Petrochemicals				
Export and sales on international markets	522	3.2%	294	2.7%
Domestic sales	143	0.9%	102	0.9%
	665	**4.1%**	**396**	**3.6%**
Other	**883**	**5.5%**	**666**	**6.0%**
Total sales	**16,136**	**100.0%**	**11,033**	**100.0%**

Sales volumes	9 months of 2003		9 months of 2002	
	(thousands of barrels)			
Crude oil				
Export and sales on international markets other than CIS	174,799		139,915	
Export and sales to CIS	24,138		9,676	
Domestic sales	36,320		47,550	
Crude oil	(thousands of tonnes)			
Export and sales on international markets other than CIS	23,847	32.9%	19,088	31.6%
Export and sales to CIS	3,293	4.5%	1,320	2.2%
Domestic sales	4,955	6.7%	6,487	10.8%
	32,095	**44.3%**	**26,895**	**44.6%**
Refined products	(thousands of tonnes)			
Export and sales on international markets	24,911	34.3%	19,350	32.1%
Domestic sales	15,524	21.4%	14,069	23.3%
	40,435	**55.7%**	**33,419**	**55.4%**
Total sales volume of crude oil and refined products	**72,530**	**100.0%**	**60,314**	**100.0%**

Realized average sales prices	9 months of 2003		9 months of 2002	
	($/barrel)	($/tonne)	($/barrel)	($/tonne)
Average realized price international				
Oil (except CIS)	25.82	189.24	22.07	161.78
Oil (within CIS)	13.91	101.99	10.46	76.69
Refined products		275.77		227.53
Average realized price within Russia				
Oil	7.92	58.02	7.61	55.82
Refined products		166.27		143.40

In the first nine months ended September 30, 2003, sales revenues increased by $5,103 million or 46.3% compared to the same period of 2002.

The total volume of crude oil and refined products sold reached 72.5 million tonnes, which is 20.3% more than for the same period of 2002. Our revenues from crude oil sales increased by $1,586 million, or 44.7%. Our sales of refined products increased by $3,031 million, or 47.2%.

Sales of crude oil and refined products on the international market, including the CIS, accounted for 71.8% of total sales in the first nine months ended September 30, 2003, compared to 65.9% in the same period of 2002.

The increase in sales was principally due to the following:

- increase in crude oil prices and refined products prices
- increase in volumes exported
- change in sales mix – increase in share of refined products in total volumes sold
- increase in total volume of production and refining
- increase in marketing activities

Increase in export and refining due to reduction in sales of crude oil on the domestic market

In the period ended September 30, 2003, the Company decreased its sales of crude oil on the domestic market compared to the same period in the previous year by 11.2 million barrels, or 23.6%. This change was caused by an increase in volumes exported by the Company's domestic producers by 41.8 million barrels and an increase in refining at the Company's domestic refineries by 0.4 million tonnes (including refining at OAO LUKOIL-Nizhegorodnefteorgsyntez).

The increase in export sales, along with an increase in the average realized export price of crude oil on international markets (other than CIS) from $22.07 per barrel in the period ended September 30, 2002 to $25.82 per barrel in the same period of 2003 as well as an increase in the average realized price on CIS markets from $10.46 per barrel to $13.91 per barrel, allowed us to obtain an additional $908 million in revenues.

Increase in share of refined products in total sales volumes

Sales of refined products made up 55.7% of our total sales compared to 55.4% in the same period of 2002.

The average realized price on refined products also increased by $48.24 per tonne, or 21.2%. Volumes of refined products sold outside Russia increased by 5,561 thousand tonnes, or 28.7%. As a result our revenues from sales of refined products outside Russia increased by $2,467 million, or 56.0%.

The Company's revenues from refined product sales outside Russia in the period ended September 30, 2003 include revenues from retail sales of $1,568 million. Refined products sold at retail amounted to 2,749 thousand tonnes; the average realized price was $570.50 per tonne.

The average realized price on refined products sold within Russia increased by $22.86 per tonne, or 15.9%. Domestic refined products sales increased by 1,455 thousand tonnes, or 10.3%. As a result our revenues from sales of refined products on the domestic market increased by $564 million, or 28.0%.

The Company's revenues from refined product sales on the domestic market in the period ended September 30, 2003 include revenues from retail sales of $550 million. Refined products sold at retail amounted to 1,641 thousand tonnes; the average realized price was $335.29 per tonne.

Increase in total volume of production and refining

In line with our long term strategy we increased our total daily oil production (including the Company's share in equity associates, but excluding our share in Azeri, Chirag, Guneshli in 2002) by 4.4% and produced 437 million barrels (59.4 million tonnes) in the period ended September 30, 2003.

	9 months of 2003	9 months of 2002	Change, %
Daily production, including Company's share in Equity associates (thousand barrels per day)........	**1,601**	1,544	3.7%
Daily production, including Company's share in Equity associates, but excluding our share in Azeri, Chirag, Guneshli (thousand barrels per day) *........	**1,601**	1,533	4.4%
Refined products produced (thousand barrels per day)........**	**790**	778	1.5%

* according to the sales agreement with INPEX, signed in December 2002, from January 1, 2003 all benefits, rights and obligations associated with Azeri, Chirag, Guneshli PSA project are to be transferred to and borne by INPEX.

** including refining at OAO LUKOIL-Nizhegorodnefteorgsyntez for the 9 months 2002.

Amongst other factors, our oil production increased in the third quarter of 2003 by 6.8 million barrels (0.9 million tonnes) due to the acquisition of exploration and production subsidiaries at the end of the second quarter of 2003 (ZAO LUKOIL-AIK, OAO Tebukneft, OAO Ukhtaneft, ZAO RKM-Oil and OAO Yaregskaya Nefte-Titanovaya Kompaniya).

Increase in sales of petrochemical products

Revenues from sales of petrochemical products increased by $269 million, or 67.9%, mainly as a result of an increase in sales volumes due to the acquisition of the LUKOR petrochemical plant in the third quarter of 2002 and an increase in average realized prices in the period ended September 30, 2003 compared to the same period of 2002. The increase in the output of petrochemical products at LUKOR for the period ended September 30, 2003 led to a revenue increase from sales of petrochemical products of $70 million.

Increase in sales of other products

Other sales increased by $217 million or 32.6% as a result of sales of other products produced by the Company, and also increased activity in providing services to third parties such as transportation, construction and consumer goods.

Increase in marketing activities

In line with our strategy, during 2003 the Group continued penetration into new international markets and development of the LUKOIL brand name around the world. We significantly expanded our marketing activities in developed markets. In particular, the Group commenced trading on different markets in Western Europe, South-East Asia, Northern and Central America. The total volume of refined products, which were purchased from third parties for resale, was 5.1 million tonnes or $1,066 million (2.8 million tonnes or $585 million in the first half of 2003).

In addition, the Group purchased refined products in the USA in order to supply its retail sales chain. Total volume of refined products purchased in this activity from third parties during the period ended September 30, 2003 was 2.3 million tonnes or $797 million (1.5 million tonnes or $512 million in the first half of 2003).

Increase in the equity share in income of affiliates

Our share in the income of affiliates was $138 million. This is $63 million higher than in the previous reporting period. This increase was mainly caused by significant profits earned by our exploration and production affiliates in the period ended September 30, 2003 as a result of higher crude oil prices.

Operating expenses

Operating expenses include the following types of costs:

	9 months of	
	2003	**2002**
	(millions of US dollars)	
Extraction expenses	1,076	1,016
Refining expenses	361	305
Processing costs at associated refineries	–	131
Petrochemical expenses	108	77
Other operating expenses	509	299
Total operating expenses	**2,054**	**1,828**
Costs of purchased crude oil and petroleum products	**4,300**	**1,749**

Compared to the same period of 2002, operating expenses increased by $226 million, or 12.4%. Costs of purchased crude oil and petroleum products increased $2,551 million, or 145.9%, compared to the previous period primarily as a result of increase in volumes of crude oil and petroleum products purchased for resale.

The following table summarizes our oil production and refining data, and also data on purchased oil and oil products.

	9 months of			
	2003		2002	
	(thousands barrels)	(thousands tonnes)	(thousands barrels)	(thousands tonnes)
Crude oil produced by consolidated subsidiaries	412,916	56,065	389,584	53,174
Crude oil produced by associates, total	37,624	5,072	46,954	6,321
Crude oil purchased	70,808	9,660	44,185	6,028
Refined products produced at Group refineries		29,410		23,414
Refined products produced at associated refinery (LUKOIL-Nizhegorodnefteorgsintez)		–		5,567
Refined products purchased		10,913		4,721

Our extraction expenses include expenditures related to current repairs of extraction equipment, labor costs, expenses of artificial stimulation of reservoirs, fuel and electricity costs and other similar costs.

Expenses of the Company's production enterprises related to the sale of services and goods (such as electricity, heat, etc.) that do not relate to core activities have been excluded from extraction expenses and are included in other operating costs.

Despite a 16.9% real ruble appreciation during the twelve months period ended September 30, 2003 (including 12.6% real ruble appreciation during the nine-months period ended September 30, 2003), our **average extraction cost per barrel** decreased from $2.61 to $2.60 per barrel, or 0.4%. The increase in total extraction expenses resulted from an increase in volumes of oil produced by our subsidiaries from 53.2 million tonnes during the nine-month period ended September 30, 2002 to 56.1 million tonnes during the same period of 2003. Thus, the total extraction expenses rose by $60 million, or 5.9%, as compared to the respective period of the previous year.

Refining expenses at our refineries increased by $56 million, or 18.4%, from the period ended September 30, 2002, to the same period of 2003. This was primarily caused by a 1.5% increase in volumes refined and the fact that refining expenses of the LUKOIL-Nizhegorodnefteorgsintez refinery were included in the Company's total refining expenses starting from August 2002, when it became a consolidated subsidiary. Prior to this period processing fees at LUKOIL-Nizhegorodnefteorgsintez were accounted for as processing costs at an associated refinery. Expenses of LUKOIL-Nizhegorod-nefteorgsintez for the period ended September 30, 2003 were $45 million, while in the same period of the previous year these expenses amounted to $13 million.

In addition, refining expenses of our international refineries increased by 17.7%, or $17 million. This was primarily caused by an appreciation in the exchange rate of Bulgarian lev to US dollars. The exchange rate of Bulgarian lev is tied to Euro and, therefore, it appreciated against the US dollar by 18.4% during the twelve months period ended September 30, 2003.

Operating expenses of petrochemical companies increased by $31 million, or 40.3%, compared to the same period of 2002. The increase resulted from the acquisition of the LUKOR petrochemical plant in the third quarter of 2002. The costs of the LUKOR refinery in the first half of 2003 were $30 million.

Other operating expenses include the costs of other services provided and goods not related to primary activities (such as electricity, heat, etc.) sold by our production companies, and operating expenses of other non-core businesses of the Group. Other operating expenses also include costs associated with the delivery of crude oil from the Group's exploration and production entities to the Group's refineries, as well as the amount of the change in crude oil and refined products inventory at the Group's marketing entities. Other operating expenses increased by $210 million, or 70.2%, as compared to the same period of 2002 as a result of increase in other sales, increase in delivery costs and change in crude oil and refined products inventory in the period ended September 30, 2003.

Costs of purchased crude oil and petroleum products increased by $2,551 million, or 145.9%, in comparison with the prior period primarily due to a significant increase in volumes purchased (crude oil by 26.6 million barrels, refined products by 6.2 million tonnes) and an increase in purchase prices.

Transportation expenses

The increase in the total volume of sales and the change in their structure (increase in the share of refined products) led to an increase in transportation expenses. However, the main factor in the increase of $483 million (48.3%) in these expenses compared to the period ended September 30, 2002 was the increase in the transportation tariffs.

During the twelve months period ended September 30, 2003, transportation tariffs increased as follows: pipeline transport – 15.4%, sea shipping – 90.7% (weighted average by volumes transported to different locations), railway transport – 18.2%. At the same time the volume of goods transported by sea tankers decreased by 13.2%.

Selling, general and administrative expenses

Our other selling, general and administrative expenses increased by $261 million, or 26.9%, in comparison with the same period of 2002. The above-mentioned expenses include general business expenses, payroll costs (excluding extraction entities' and refineries' production staff cost), insurance costs, costs of maintenance of social infrastructure, movement in bad debt provision and other expenses.

The increase in other selling, general and administrative expenses was primarily caused by 16.9% real appreciation of the ruble during the twelve months period ended September 30, 2003. Also, the Company accrued compensation to management of approximately $26 million in relation to the share-based compensation program. In addition, movement in bad debt provision had an effect on selling, general and administrative expenses for the periods under consideration. For the period ended September 30, 2002, bad debt provision decreased by $13 million thus decreasing general expenses, while for the same period of 2003 we increased bad debt provision by $30 million.

Depreciation, depletion and amortization

Depreciation, depletion and amortization expenses include depletion of assets fundamental to production, depreciation of other productive and non-productive assets and certain intangible assets and provision for abandonment and site restoration costs in the nine months ended September 30, 2002. Our depreciation, depletion and amortization expenses decreased by $19 million, or 2.7%, in comparison to the same period of 2002. This decrease resulted from a decrease in applied depletion rates resulting from upward revisions of the Company's proved reserves and, consequently, an increase in estimated useful economic life of fixed assets.

Depreciation and amortization for the 9 months of 2003 include $5 million of depreciation and amortization related to subsidiaries acquired at the end of the second quarter of 2003.

Taxes other than income taxes

Taxes other than income taxes include extraction tax, road user's tax, property tax and social taxes.

	9 months of			
	2003		2002	
	in Russia	International	in Russia	International
	(millions of US dollars)			
Extraction tax	1,420	-	1,060	-
Social security taxes and contributions	181	16	154	4
Road taxes	5	-	86	-
Property tax	86	12	66	9
Other taxes	27	29	28	29
	1,719	**57**	**1,394**	**42**
Total		**1,776**		**1,436**

The increase in taxes other than income taxes resulted primarily from a $360 million increase in mineral extraction tax, which is linked to international crude oil prices. The $39 million increase in social taxes and contributions was compensated by the abolition of road taxes starting January 1, 2003.

Excise and export tariffs

Our excise and export tariffs include duties on sales of refined products and export tariffs on export of crude oil and refined products. Excise and export tariffs increased by $727 million, or 52.8%, compared to the previous reporting period. The increase in export tariffs expenses resulted from the increase in export tariff rates and also the increase in volumes exported. The increase in international excise taxes on refined products resulted from an increase in excise taxes and fuel sales taxes and from an increase in volumes of products sold across our international group as well as the increase in our refining.

Effective January 1, 2003, domestic tax legislation was amended in terms of payment of excises on refined products. Starting from January 1, 2003, excises are paid by our marketing companies if they sell refined products to the end customer. If refined products are sold to another retailer or a wholesaler, the seller is not subject to excise. During the nine-months period ended September 30, 2003 domestic excise rates rose by more than 45% as compared to the respective period of 2002.

	9 months of			
	2003		2002	
	in Russia	International	in Russia	International
	(millions of US dollars)			
Excise tax and sales taxes on refined products	306	787	273	583
Export tariffs	1,007	5	522	-
	1,313	**792**	**795**	**583**
Total		**2,105**		**1,378**

Exploration expenses

The costs we incur in our exploratory drilling efforts are capitalized to the extent that our exploration efforts are successful and otherwise are charged to expenses of the current period. During the period ended September 30, 2003, the amount charged to exploration expense increased in comparison with the same period of 2002 by $7 million.

Loss on disposal and impairment of assets

Loss on disposal and impairment of assets in the period ended September 30, 2003, was $67 million (excluding gain on sale of interest in Azeri, Chirag, Guneshli) compared to $68 million in the same period of 2002.

Interest expense

Interest expense in the period ended September 30, 2003, increased by $39 million, or 22.3%, compared to the same period of 2002 primarily due to an increase in the Group's level of debt, including balances on customers' deposits at the Group's banks. As of September 30, 2002, the Group's total debt was $3,607 million, including customers' deposits of $563 million. By September 30, 2003, the Group's total debt increased to $3,946 million, including customers' deposits of $847 million. Also, by the end of the third quarter of 2003 a portion of the Company's 1% convertible US Dollar bonds (carrying value of $341 million) had been converted into the Company's common shares.

Income taxes

Our total income tax expense increased by $161 million, or 29.8%, compared to the same period of 2002 while our income before income tax increased by $1,747 million, or 92.6% (excluding gain on sale of interest in Azeri, Chirag, Guneshli, by $617 million, or 32.7%).

Our effective tax rate in the period ended September 30, 2003, excluding the effect of gain on sale of interest in Azeri, Chirag, Guneshli, was 28.0% (in the same period of 2002 it was 28.6%), which is higher than the maximum statutory rate for the Russian Federation (24%). This is attributable to the fact that some costs incurred during the year are not tax deductible or only deductible to a certain limit. The gain on sale of interest in Azeri, Chirag, Guneshli was not subject to income tax.

Liquidity and capital resources

	9 months of 2003	9 months of 2002
	(million US dollars)	
Net cash provided by operating activities	2,269	1,698
Net cash used in investing activities	(1,915)	(1,752)
Net cash (used in) provided by financing activities	(236)	57
Net debt	2,558	2,452
Current ratio	1.32	1.52
Total debt to equity	23.4%	26.7%
Long term debt to long term debt and equity	8.2%	13.3%

Our primary source of cash flow is funds generated from our operations. In the period ended September 30, 2003 cash generated by operating activities was $2,269 million, an increase of $571 million from $1,698 million recorded in the same period of 2002.

In the period ended September 30, 2003, the Company spent $1,915 million on capital investments, acquisitions of interests in other companies and other investments. Capital expenditures during nine months of 2003 amounted to $2,087 million. The Company also spent $1,008 million on acquisitions of interests in other companies and minority interests in some of its subsidiaries. These acquisitions were primarily financed from sale proceeds of $1,337 million received on sale of the Company's share in PSA Azeri, Chirag, Guneshli. Remaining investing activity was financed by funds generated by our operating activities.

In the period ended September 30, 2003, cash provided from financing activities included $434 million from the issuance of long-term debt and $286 million from short-term borrowings. Cash used in financing activities during nine months of 2003 included $834 million of debt repayments and $204 million used for purchases of treasury stock.

Analysis of capital expenditures *

	9 months of 2003	9 months of 2002
	(millions of US dollars)	
Exploration and production		
Russia	1,106	773
International	218	212
Total exploration and production	1,324	985
Refining, marketing and distribution		
Russia	673	315
International	182	154
Total refining, marketing and distribution	855	469
Total capital expenditures	**2,179**	**1,454**
Acquisitions of subsidiaries		
Exploration and production		
Russia	876	85
International	-	-
Total exploration and production	876	85
Refining, marketing and distribution		
Russia	24	16
International	148	30
Total refining, marketing and distribution	172	46
Less cash acquired	**(40)**	**(3)**
Total	**1,008**	**128**

* Including non-cash transactions

Reconciliation of income before income tax to EBITDA (earnings before interest, taxes, depreciation and amortization)

	9 months of 2003	9 months of 2002
Income before income taxes	**3,634**	**1,887**
Add back:		
Depreciation and amortization	685	704
Interest expense	214	175
Interest and dividend income	(99)	(103)
EBITDA	**4,434**	**2,663**

Three months ended September 30, 2003 compared to three months ended September 30, 2002

The table below details certain income and expense items from our consolidated statements of income for the periods indicated. All items are presented in millions of US dollars, except for earnings per share data and the items expressed as a percentage of revenues.

	3rd quarter of			
	2003		**2002**	
Revenues				
Sales (including excise and export tariffs)	5,994	99.2%	4,392	99.1%
Equity share in income of associates	47	0.8%	40	0.9%
Total revenues	**6,041**	**100.0%**	**4,432**	**100.0%**
Costs and other deductions				
Operating expenses	(693)	(11.5)%	(585)	(13.2)%
Costs of purchased crude oil, petroleum and chemical products	(1,635)	(27.1)%	(841)	(19.0)%
Transportation expenses	(544)	(9.0)%	(395)	(8.9)%
Selling, general and administrative expenses	(473)	(7.8)%	(359)	(8.1)%
Depreciation, depletion and amortization	(230)	(3.8)%	(226)	(5.1)%
Taxes other than income taxes	(636)	(10.5)%	(628)	(14.2)%
Excise and export tariffs	(776)	(12.8)%	(593)	(13.4)%
Exploration expense	(23)	(0.4)%	(20)	(0.5)%
Loss on disposal and impairment of assets	1	0.0 %	(42)	(0.9)%
Income from operating activities	**1,032**	**17.1 %**	**743**	**16.8 %**
Interest expense	(74)	(1.2)%	(49)	(1.1)%
Interest and dividend income	36	0.6 %	35	0.8 %
Currency translation gain	39	0.6 %	52	1.2 %
Other non-operating expense	(33)	(0.5)%	(10)	(0.2)%
Minority interest	(12)	(0.2)%	(11)	(0.2)%
Income before income taxes	**988**	**16.4 %**	**760**	**(17.1)%**
Current income taxes	(286)	(4.7)%	(271)	(6.1)%
Deferred income taxes	(1)	(0.0)%	18	0.4 %
Total income tax expense	**(287)**	**(4.8)%**	**(253)**	**(5.7)%**
Net income	**701**	**11.6%**	**507**	**11.4%**
Per share of common stock (in US Dollars)				
Net income				
Basic	0.85		0.62	
Diluted	0.84		0.62	

Sales revenues

Sales breakdown	3rd quarter of 2003		2002	
	(millions of US dollars)			
Crude oil				
Export and sales on international markets other than CIS..........	1,657	27.6%	1,164	26.5%
Export and sales in the CIS	86	1.4%	42	1.0%
Domestic sales	137	2.3%	127	2.9%
	1,880	**31.3%**	**1,333**	**30.4%**
Refined products				
Export and sales on international markets..................................	2,512	41.9%	1,797	40.2%
Domestic sales	999	16.7%	861	19.6%
	3,511	**58.6%**	**2 658**	**59.8%**
Petrochemicals				
International sales	208	3.5%	110	2.5%
Domestic sales	59	1.0%	40	0.9%
	267	**4.5%**	**150**	**3.4%**
Other products...	**336**	**5.6%**	**251**	**6.4%**
Total sales	**5,994**	**100.0%**	**4,392**	**100.0%**

Sales volumes	3rd quarter of 2003		2002	
Crude oil	(thousands of barrels)			
Export and sale on international markets other than CIS	61,491		46,011	
Export and sales in the CIS	5,432		2,837	
Domestic sales	11,735		10,257	
Crude oil	(thousands of tonnes)			
Export and sale on international markets other than CIS	8,389	33.3%	6,277	31.3%
Export and sales in the CIS	741	2.9%	387	1.9%
Domestic sales	1,601	6.3%	1,399	7.0%
	10,731	**42.5%**	**8,063**	**40.2%**
Refined products	(thousands of tonnes)			
Export and sales on international markets..................................	9,542	37.8%	7,270	36.2%
Domestic sales	4,948	19.7%	4,743	23.6%
	14,490	**57.5%**	**12,013**	**59.8%**
Total sales of crude oil and refined products.........................	**25,221**	**100.0%**	**20,076**	**100.0%**

Realized average sales prices	3rd quarter of 2003		2002	
	($/barrel)	($/tonne)	($/barrel)	($/tonne)
Average realized price international				
Oil (except CIS)	26.95	197.55	25.31	185.56
Oil (in CIS)	15.75	115.44	14.77	108.26
Refined products		263.22		247.15
Average realized price within Russia				
Oil	11.63	85.28	12.41	90.99
Refined products		201.92		181.64

In the third quarter of 2003, sales revenues increased by $1,602 million or 36.5% compared to the third quarter of 2002.

The total volume of crude oil and refined products sold reached 25.2 million tonnes, which is 25.6% higher than for the same period of 2002. Our revenues from sales of crude oil increased by $547 million, or 41.0%. Our sales of refined products increased by $853 million, or 32.1%.

The share of sales of crude oil and refined products on the international market, including the CIS in the total volume of sales was 74.0% in the third quarter of 2003, compared to 69.4% in the third quarter of 2002.

The increase in sales was principally due to the following:

- increase in crude oil prices and refined products prices
- increase in volumes exported
- increase in sales of refined products
- increase in total volume of production and refining
- increase in marketing activities

Increase in exports and crude oil prices

Increase in export sales by 16.2 million barrels, along with an increase in the average realized export price of crude oil on international markets (other than CIS) from $25.31 per barrel in the third quarter of 2002 to $26.95 per barrel in the third quarter of 2003 and increase in the average realized price on CIS markets from $14.77 per barrel to $15.75 per barrel, allowed us to obtain additional $407 million in revenues.

Increase in refined product volumes

Sales of refined products made up 57.5% of total sales, compared to 59.8% in the third quarter of 2002.

Our revenues from sales of refined products outside Russia increased by $715 million, or 39.8%. Volumes of refined products sales outside Russia increased by 2,272 thousand tonnes, or 31.3%. The average sale price on refined products also increased by $16.07 per tonne, or 6.5%.

The Company's revenues from refined product sales outside Russia in the third quarter of 2003 included revenues from retail sales of $574 million. Refined products sold at retail amounted to 1,042 thousand tonnes; the average sale price was $551.03 per tonne.

Our revenues from sales of refined products on the domestic market increased by $138 million, or 16.0%. Volumes of domestic refined products sales increased by 205 thousand tonnes, or 4.3%. The average realized price on refined products sold within Russia increased by $20.28 per tonne, or 11.2%.

The Company's revenues from refined product sales on the domestic market in the third quarter of 2003 included revenues from retail sales of $254 million. Refined products sold at retail amounted to 764 thousand tonnes; the average sale price was $331.84 per tonne.

Increase in total volume of production and refining

We increased our total daily oil production (including the Company's share in equity associates, but excluding our share in Azeri, Chirag, Guneshli in 2002) by 6.6% and produced 150.4 million barrels (20.5 million tonnes) in the third quarter of 2003.

	3rd quarter of 2003	3rd quarter of 2002	Change, %
Daily crude oil production, including Company's share in Equity associates (thousand barrels per day)	**1,635**	1,546	5.8%
Daily crude oil production, including Company's share in Equity associates, but excluding our share in Azeri, Chirag, Guneshli (thousand barrels per day)*	**1,635**	1,534	6.6%
Refined products produced (thousand barrels per day)	**824**	827	-0.4%

* according to the sales agreement with INPEX, signed in December 2002, from 1 January 2003 all benefits, rights and obligations associated with Azeri, Chirag, Guneshli PSA project are to be transferred to and borne by INPEX.

Amongst other factors, our oil production increased in the third quarter of 2003 by 6.8 million barrels (0.9 million tonnes) due to the acquisition of exploration and production subsidiaries at the end of the second quarter of 2003 (ZAO LUKOIL-AIK, OAO Tebukneft, OAO Ukhtaneft, ZAO RKM-Oil and OAO Yaregskaya Nefte-Titanovaya Kompaniya).

Increase in sales of petrochemical products

Sales of petrochemicals increased by $117 million, or 78.0%, due to an increase in volumes of petrochemical products sold internationally and corresponding increase in realized sales prices.

Increase in sales of other products

Other sales increased by $85 million or 33.9% as a result of sales of other products, and increased activity of providing services to third parties such as transportation, construction and consumer goods.

Operating expenses

	3rd quarter of 2003	2002
	(millions of US dollars)	
Extraction expenses	382	348
Refining expenses	123	107
Processing costs at associated refineries	-	25
Petrochemical expenses	40	34
Other operating expenses	148	71
Total operating expenses	**693**	**585**
Costs of purchased crude oil and petroleum products	**1,635**	**841**

Compared to the third quarter of 2002, operating expenses increased by $108 million, or 18.5%. Costs of purchased crude oil and petroleum products increased by $794 million, or 94.4%, in comparison with the previous period as a result of the increase in volumes of crude oil and petroleum products purchased for resale.

The increase in operating expenses is related to an increase in production and refining volumes.

The following table summarizes our oil production and refining data, and also data on purchased oil and oil products.

	3rd quarter of 2003		2002	
	(thousands barrels)	(thousands tonnes)	(thousands barrels)	(thousands tonnes)
Crude oil produced by consolidated subsidiaries	145,463	19,773	131,597	17,882
Crude oil produced by associates, total	6,886	931	15,944	2,175
Crude oil purchases	19,366	2,642	16,287	2,222
Refined products produced at Group refineries		10,347		9,428
Refined products produced at associated refinery (LUKOIL-Nizhegorodnefteorgsintez)		-		957
Refined products purchased		4,456		1,798

Our extraction expenses include expenditures related to current repairs of extraction equipment, labor costs, expenses of artificial stimulation of reservoirs, fuel and electricity costs and other similar costs.

Expenses of the Company's production enterprises related to the sale of services and goods (such as electricity, heat, etc.) that do not relate to core activity have been eliminated from production expenses and are included in other operating costs.

Despite a 16.9% real ruble appreciation during the twelve months period ended September 30, 2003 (including 12.6% real ruble appreciation in the nine-months period ended September 30, 2003), our **average extraction cost per barrel** decreased from $2.65 to $2.63 per barrel, or 0.8%. The increase of total extraction expenses resulted from an increase in volumes of oil produced by our subsidiaries from 17.9 million tonnes in the third quarter of 2002 to 19.8 million tonnes in the third quarter of 2003, or 10.6%. Thus, the total extraction expenses rose by $34 million as compared to the respective period of the previous year, or 9.8%.

Refining expenses at our refineries increased by $16 million, or 15.0%, from the third quarter of 2002 to the same period of 2003. This was caused by the fact that operating expenses of OAO LUKOIL-Nizhegorodnefteorgsintez were included in the total refining expenses of the Group starting from August 2002, when OAO LUKOIL-Nizhegorodnefteorgsintez became a consolidated subsidiary. The refining expenses of OAO LUKOIL-Nizhegorodnefteorgsintez in the third quarter of 2003 were $18 million, and $13 million in the respective period of 2002.

In addition, the increase of our refining expenses resulted from an increase in expenses of our international refineries of $13 million. This was primarily caused by an appreciation in the exchange rate of Bulgarian lev to US dollars. The exchange rate of Bulgarian lev is tied to Euro and, therefore, it appreciated against the US dollar by 18.4% for the twelve months period ended September 30, 2003.

Operating expenses of petrochemical companies increased by $6 million, or 17.6%, compared to the third quarter of 2002. The increase resulted from the growth of petrochemical production.

Other operating expenses include the costs of other services provided and goods not related to primary activities (such as electricity, heat, etc.) sold by our production companies, and operating expenses of other non-core businesses of the Group. Other operating expenses also include costs associated with the delivery of crude oil from the Group's exploration and production entities to the Group's refineries, as well as the amount of the change in crude oil and refined products inventory. Other operating expenses increased by $77 million, as result in other sales.

Costs of purchased crude oil and petroleum products increased by $794 million, or 94.4%, in comparison with the prior period primarily due to a significant increase in volumes purchased (crude oil by 3.1 million barrels, refined products by 2.7 million tonnes) and increase in purchase prices.

Transportation expenses

Compared to the third quarter of 2002, transportation expenses increased by $149 million, or 37.7%. The increase in expenses is attributable primarily to the increase in all transportation tariffs, and also to the increase in sales volumes analyzed above and changes in the product mix – an increase in the share of refined products in total sales.

Selling, general and administrative expenses

Our other selling, general and administrative expenses increased by $114 million, or 31.8%, in comparison with 2002. The above-mentioned expenses include general business expenses, payroll costs (excluding extraction entities' and refineries' production staff cost), insurance costs, costs of maintenance of social infrastructure, movement in bad debt provision and other expenses.

The increase in other selling, general and administrative expenses was primarily caused by 16.9% real appreciation of the ruble in the twelve months period ended September 30, 2003. Also, movement in bad debt provision had an effect on selling, general and administrative expenses for the periods under consideration. For the third quarter of 2002, bad debt provision decreased by $7 million thus decreasing general expenses, while for the third quarter of 2003 bad debt provision increased by $18 million.

Depreciation, depletion and amortization

Depreciation, depletion and amortization expenses include depletion of assets fundamental to production, depreciation of other productive and non-productive assets and certain intangible assets and provision for abandonment and site restoration costs in the third quarter of 2002. Our depreciation, depletion and amortization expenses increased by $4 million, or 1.8%, in comparison to the same period of 2002. This is mainly related to a respective increase in depreciable assets base.

Depreciation and amortization for the third quarter of 2003 include $5 million of depreciation and amortization related to subsidiaries acquired at the end of the second quarter of 2003.

Taxes other than income taxes

Taxes other than income taxes include mineral extraction tax, road user's tax, property tax and social taxes. The increase in taxes other than income taxes resulted primarily from a $23 million increase in mineral extraction tax, which is linked to international crude oil prices. The abolition of road taxes from January 1, 2003 led to reduction of taxes other than income taxes on $36 million.

	3rd quarter of			
	2003		2002	
	Russia	International	Russia	International
	(millions of US dollars)			
Extraction tax	514	-	491	-
Social security taxes and contributions	51	6	55	1
Road taxes	1	-	37	-
Property tax	35	4	26	3
Other taxes	11	14	11	4
	612	**24**	**620**	**8**
Total		**636**		**628**

Excise and export tariffs

Our excise and export tariffs include taxes on the sale of refined products and export tariffs on the export of crude oil and refined products. Excise and export tariffs increased by $183 million, or 30.9%, compared to the previous reporting period. The increase in export tariffs expenses resulted from the increase in world oil prices and also the increase in volumes exported. The increase in international excise taxes on refined products resulted from an increase in excise taxes and fuel sales taxes and from an increase in volumes of products sold across our international group as well as the increase in our refining.

Effective January 1, 2003, domestic tax legislation was amended in terms of payment of excises on refined products. Prior to that date excises on refined products were paid by refineries. Starting from 2003, excises are paid by our marketing companies if they sell refined products to the end customer. If refined products are sold to another retailer or a wholesaler, the seller is not subject to excise, and excise is not included in selling price. In 2003 domestic excise rates rose by more than 45% as compared to the third quarter of 2002.

	3rd quarter of			
	2003		2002	
	in Russia	International	in Russia	International
	(millions of US dollars)			
Excise tax and sales taxes on refined products	116	325	139	237
Export tariffs	334	1	217	-
	450	**326**	**356**	**237**
Total		**776**		**593**

Exploration expenses

The costs we incur in our exploratory drilling efforts are capitalized to the extent that our exploration efforts are successful and otherwise are charged to expenses. During the third quarter of 2003, the amount charged to exploration expense increased in comparison with the same period of 2002 by $3 million.

Loss on disposal and impairment of assets

Gain on disposal of assets in the third quarter of 2003 was $1 million compared to $42 million of loss from disposal an impairment of assets in the third quarter of 2002.

Interest expense

Interest expense in the third quarter of 2003 increased by $25 million, or 51.0%, compared to the third quarter of 2002 primarily due to an increase in the Group's debt level, including balances on customers' deposits at the Group's banks.

Income taxes

Our total income tax expense increased by $34 million, or 13.4%, compared to the third quarter of 2002 while our income before income tax increased by $228 million, or 30.0%.

Our effective tax rate in the third quarter of 2003 was 29.0% (in the third quarter of 2002 – 33.3%). This rate was higher than the 24% maximum statutory rate for the Russian Federation because some costs incurred during the year are not tax deductible or only deductible to a certain limit, thus increasing the effective tax rate.

Reconciliation of income before income tax to EBITDA (earnings before interest, taxes, depreciation and amortization)

	3rd quarter of 2003	3rd quarter of 2002
Income before income taxes	**988**	**760**
Add back:		
Depreciation and amortization	230	226
Interest expense	74	49
Interest and dividend income	(36)	(35)
EBITDA	**1,256**	**1,000**