PRESS RELEASE
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# LUKOIL TRIPLES NET PROFIT DESPITE GREATER TAX BURDEN

LUKOIL today disclosed its consolidated financial statements for the first three and six months of 2003 prepared in accordance with US Generally Accepted Accounting Principles (US GAAP).

The Company showed significant growth of net profit in the second quarter of 2003. Net profit almost tripled year-on-year from USD 840 million to USD 2.36 billion. The Company's earnings before interest, tax, depreciation and amortization in the period under review were USD 3.18 billion as against USD 1.66 billion in the same period last year.

LUKOIL continued successful efforts to boost efficiency and increase value in the second half of 2003. One example is the sale of LUKOIL's 10% stake in the Azeri-Chirag-Guneshly project in the second quarter of the year, which brought USD 1.13 billion in net profit. At the same time, the Company is striving to find efficient substitutes for the divested assets. Geological exploration work added 1.21 billion barrels of oil equivalent to LUKOIL's proved reserves in 2002, estimated in accordance with international standards. Finding cost per one barrel of oil equivalent was USD 0.25.

Export operations rose to 71% of total sales in the first half of 2003 from 64% in the same period last year. The Company cut its crude sales on the domestic market by 12.7 million barrels or 34.1% as against the same period last year.

The Company's production in the second quarter of this year grew by 3.5%, which is double the growth rate for the same period last year.

The Company continued to optimize its exploration and production activities, closing down 594 less efficient wells since January 1, 2003. The average well rate in the first six months of this year rose to 9.4 tons per day from 9.0 tons per day in 2002. Oil production costs in the same six-month period were USD 2.59 per barrel based on inflation of 8% and a 13% rise in the ruble-to-dollar exchange rate.

The Company's capital expenditure in the period under review was USD 1.36 billion as compared with USD 798 million in the same period last year. LUKOIL thus remains a major investor in the fuel-and-energy sector. The Company is expanding its own export infrastructure in order to reduce transportation costs. The Varanday Terminal will increase its annual capacity from five million to nine million tons by the end of this year, and in early October LUKOIL started up phase-1 of an export terminal with annual capacity of up to one million tons at Ilyinka in Astrakhan Region.

The Company paid nearly USD 3 billion in taxes in the first half of 2003 (USD 1.8 billion in the same period last year).

**Consolidated Balance Sheets**

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Millions of US dollars, unless otherwise noted

| | For the three months ended June 30, 2003(unaudited) | For the three months ended June 30, 2002 (unaudited) | For the sixmonths ended June 30, 2003(unaudited) | For the six months ended June 30, 2002 (unaudited) |
|---|---|---|---|---|
| **Revenues** | | | | |
| Sales (including excise and export tariffs) | 5,086 | 3,794 | 10,142 | 6,641 |
| Equity share in income of affiliates | 49 | 15 | 91 | 35 |
| **Total revenues** | **5,135** | **3,809** | **10,233** | **6,676** |
| **Costs and other deductions** | | | | |
| Operating expenses | (693) | (586) | (1,361) | (1,243) |
| Cost of purchased crude oil, petroleum and chemical products | (1,386) | (512) | (2,665) | (908) |
| Transportation expenses | (503) | (337) | (939) | (605) |
| Selling, general and administrative expenses | (429) | (304) | (758) | (611) |
| Depreciation, depletion and amortization | (226) | (241) | (455) | (478) |
| Taxes other than income taxes | (530) | (431) | (1,140) | (808) |
| Excise and export tariffs | (788) | (573) | (1,329) | (785) |
| Exploration expenses | (28) | (30) | (54) | (50) |
| Gain from sale of interest in Azeri Chirag Guneshli | 1,130 | - | 1,130 | - |
| Loss on disposals and impairments of assets | (28) | (4) | (68) | (26) |
| **Income from operating activities** | **1,654** | **791** | **2,594** | **1,162** |
| Interest expense | (78) | (59) | (140) | (126) |
| Interest and dividend income | 47 | 36 | 63 | 68 |
| Currency translation gain (loss) | 51 | 18 | 84 | (16) |
| Other non-operating income | 28 | 49 | 64 | 70 |
| Minority interest | (12) | (25) | (19) | (31) |
| **Income before income taxes** | **1,690** | **810** | **2,646** | **1,127** |
| Current income taxes | (130) | (248) | (400) | (356) |

| | | | | |
|---|---|---|---|---|
| Deferred income taxes | (16) | 35 | (14) | 69 |
| **Total income tax expense** | **(146)** | **(213)** | **(414)** | **(287)** |
| **Income before cumulative effect of change in accounting principle** | **1,544** | **597** | **2,232** | **840** |
| Cumulative effect of change in accounting principle, net of tax | - | - | 132 | - |
| **Net income** | **1,544** | **597** | **2,364** | **840** |
| **Per share of common stock (US dollars)** | | | | |
| **Income before cumulative effect of change in accounting principle** | | | | |
| Basic | 1.89 | 0.73 | 2.73 | 1.04 |
| Diluted | 1.85 | 0.73 | 2.68 | 1.04 |
| **Net Income** | | | | |
| Basic | 1.89 | 0.73 | 2.89 | 1.04 |
| Diluted | 1.85 | 0.73 | 2.84 | 1.04 |

For the complete version of LUKOIL's consolidated financial statement in US GAAP for the first three and six months of 2003 please refer to www.lukoil.ru and www.lukoil.com