OAO LUKOIL

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(prepared in accordance with US GAAP)

As of and for the three month period ended March 31, 2004

(unaudited)

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

Independent Accountants' Review Report

The Board of Directors of OAO LUKOIL:

We have reviewed the accompanying consolidated balance sheet of OAO LUKOIL and its subsidiaries as of March 31, 2004, and the related consolidated statements of income and cash flows for the three-month periods ended March 31, 2004 and 2003, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these consolidated financial statements is the representation of the management of OAO LUKOIL.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

KPMG Limited

KPMG Limited
Moscow, Russian Federation
June 25, 2004

(Millions of US dollars, unless otherwise noted)

	Note	As of March 31, 2004 (unaudited)	As of December 31, 2003
Assets			
Current assets			
Cash and cash equivalents	6	1,134	1,435
Short-term investments		654	251
Accounts and notes receivable, net	7	3,904	3,790
Inventories		1,286	1,243
Prepaid taxes and other expenses		946	818
Other current assets		474	334
Assets held for sale	8	-	52
Total current assets		**8,398**	**7,923**
Investments		674	594
Property, plant and equipment		17,356	16,859
Deferred income tax assets		116	117
Goodwill and other intangible assets		527	523
Other non-current assets		693	558
Total assets		**27,764**	**26,574**
Liabilities and Stockholders' equity			
Current liabilities			
Accounts payable		1,537	1,564
Short-term borrowings and current portion of long-term debt	9	1,472	1,412
Customer deposits and other borrowings of banking subsidiaries		893	1,007
Taxes payable		1,051	943
Other current liabilities		293	345
Total current liabilities		**5,246**	**5,271**
Long-term debt	10	2,690	2,392
Deferred income tax liabilities		536	497
Asset retirement obligations		264	210
Other long-term liabilities		279	249
Minority interest in subsidiary companies		499	483
Total liabilities		**9,514**	**9,102**
Stockholders' equity	13		
Common stock		15	15
Treasury stock, at cost		(521)	(435)
Additional paid-in capital		3,564	3,522
Retained earnings		15,190	14,371
Accumulated other comprehensive income (loss)		2	(1)
Total stockholders' equity		**18,250**	**17,472**
Total liabilities and stockholders' equity		**27,764**	**26,574**

President of OAO LUKOIL Alekperov V.Y.	Chief accountant of OAO LUKOIL Khoba L.N.

	Note	For the three months ended March 31, 2004 (unaudited)	For the three months ended March 31, 2003 (unaudited)
Revenues			
Sales (including excise and export tariffs)	17	6,512	5,056
Equity share in income of affiliates		70	42
Total revenues		**6,582**	**5,098**
Costs and other deductions			
Operating expenses		(660)	(668)
Cost of purchased crude oil, petroleum and chemical products		(1,827)	(1,279)
Transportation expenses		(649)	(436)
Selling, general and administrative expenses		(471)	(329)
Depreciation, depletion and amortization		(248)	(229)
Taxes other than income taxes		(740)	(610)
Excise and export tariffs		(857)	(541)
Exploration expense		(30)	(26)
Loss on disposal and impairment of assets		(25)	(40)
Income from operating activities		**1,075**	**940**
Interest expense		(68)	(62)
Interest and dividend income		42	16
Currency translation gain		59	33
Other non-operating income		46	36
Minority interest		(16)	(7)
Income before income taxes		**1,138**	**956**
Current income taxes		(311)	(270)
Deferred income taxes		(8)	2
Total income tax expense	5	**(319)**	**(268)**
Income before cumulative effect of change in accounting principle		**819**	**688**
Cumulative effect of change in accounting principle, net of tax	2	-	132
Net income		**819**	**820**
Per share of common stock (US dollars):			
Income before cumulative effect of change in accounting principle			
Basic	13	1.00	0.84
Diluted	13	0.99	0.83
Net Income			
Basic	13	1.00	1.00
Diluted	13	0.99	0.99

(Millions of US dollars)

	Note	For the three months ended March 31, 2004 (unaudited)	For the three months ended March 31, 2003 (unaudited)
Cash flows from operating activities			
Net income		**819**	**820**
Adjustments for non-cash items:			
Cumulative effect of change in accounting principle, net of tax		-	(132)
Depreciation, depletion and amortization		248	229
Equity share in income of affiliates		(65)	(42)
Loss on disposal and impairment of assets		25	40
Deferred income taxes		8	(2)
Non-cash currency translation (gain) loss		(15)	3
Non-cash investing activities		(3)	(4)
All other items – net		(83)	(47)
Changes in operating assets and liabilities:			
Accounts and notes receivable		(175)	(448)
Short-term loans receivable of banking subsidiaries		60	(15)
Net movements of short-term borrowings of banking subsidiaries		(155)	(64)
Inventories		(43)	(89)
Accounts payable		(27)	58
Taxes payable		108	263
Other current assets and liabilities		(293)	24
Net cash provided by operating activities		**409**	**594**
Cash flows from investing activities			
Capital expenditures		(737)	(550)
Proceeds from sales of property, plant and equipment		59	4
Purchases of investments		(399)	(186)
Proceeds from sales of investments		64	83
Advances and loans related to acquisitions of subsidiaries and minority shareholding interest		-	(241)
Acquisitions of subsidiaries, net of cash acquired		-	(10)
Net cash used in investing activities		**(1,013)**	**(900)**
Cash flows from financing activities			
Net movements of short-term borrowings		162	22
Proceeds from issuance of long-term debt		419	266
Principal payments of long-term debt		(248)	(222)
Dividends paid		(6)	(6)
Purchases of treasury stock		(310)	(19)
Proceeds from sales of treasury stock		266	-
Other – net		(1)	(3)
Net cash provided by financing activities		**282**	**38**
Effect of exchange rate changes on cash and cash equivalents		21	5
Net decrease in cash and cash equivalents		**(301)**	**(263)**
Cash and cash equivalents at beginning of the period		1,435	1,252
Cash and cash equivalents at end of the period	6	**1,134**	**989**

Supplemental disclosures of cash flow information

Interest paid	58	50
Income tax paid	323	176

Note 1. Basis of Financial Statement presentation

The accompanying consolidated interim financial statements and notes thereto of OAO LUKOIL (the "Company") and its subsidiaries (the "Group") have not been audited by independent accountants, except for the balance sheet at December 31, 2003. In the opinion of the Company's management, the interim financial information includes all adjustments and disclosures necessary to present fairly the Group's financial position, results of operations and cash flows for the interim periods reported herein. These adjustments were of a normal recurring nature.

These consolidated interim financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). Certain notes and other information have been condensed or omitted from the interim financial statements. Therefore, these financial statements should be read in conjunction with the Group's December 31, 2003 annual consolidated financial statements. The consolidated interim financial statements have been prepared following the accounting policies applied and disclosed in the December 31, 2003 consolidated financial statements, except that during the current period the Group has changed its presentation of advances made for purchases of property, plant and equipment. Previously, these amounts were classified as other non-current assets. The Group now classifies these amounts as property, plant and equipment. Prior period amounts of $220 million have been reclassified to conform with the current period presentation.

The results for the three-month period ended March 31, 2004 are not necessarily indicative of the results expected for the full year.

Foreign currency translation

The Company maintains its accounting records in Russian rubles. The Company's functional currency is the US dollar and the Group's reporting currency is the US dollar.

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

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

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

As of March 31, 2004 and December 31, 2003, exchange rates of 28.49 and 29.45 Russian rubles, respectively to the US dollar have been used for translation purposes.

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

Note 2. Cumulative effect of change in accounting principle

Effective January 1, 2003, the Group adopted SFAS No. 143, *"Accounting for Asset Retirement Obligations,"* which applies to legal obligations associated with the retirement of tangible long-lived assets. The cumulative effect of the change increased 2003 net income by $132 million (net of income tax of $46 million).

(Millions of US dollars, unless otherwise noted)

Note 3. Recent accounting pronouncements

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

The full adoption of FIN 46 R during the period ended March 31, 2004 did not have a material impact on the Group's results of operations, financial position or cash flows.

Note 4. Accounting for drilling and mineral use rights

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

If the EITF ultimately determines that SFAS Nos. 141 and 142 require oil and gas companies to classify mineral rights as separate intangible assets, the amounts included in tangible exploration and production property, plant and equipment on the balance sheet that would be reclassified are not expected to exceed $225 million and $226 million, net of accumulated depreciation, depletion and amortization, as of March 31, 2004 and December 31, 2003, respectively. The Group management believes this reclassification would not affect total assets, net worth or cash flows of the Group as well as there will be no impact on the Group's income statement as these costs will continue to be amortized in line with SFAS 19 *"Financial Accounting and Reporting by Oil and Gas Producing Companies."*

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

Note 5. Income taxes

The combined statutory income tax rate in the Russian Federation during the periods ended March 31, 2004 and 2003 was 24%.

Note 6. Cash and cash equivalents

	As of March 31, 2004	As of December 31, 2003
Cash held in Russian rubles	166	258
Cash held in other currencies	635	510
Cash held in banking subsidiaries in Russian rubles	174	437
Cash held in banking subsidiaries in other currencies	159	230
Total cash and cash equivalents	**1,134**	**1,435**

(Millions of US dollars, unless otherwise noted)

Note 7. Accounts and notes receivable

	As of March 31, 2004	As of December 31, 2003
Trade accounts and notes receivable (net of provisions of $97 million and $90 million as of March 31, 2004 and December 31, 2003, respectively)	2,081	1,829
Current VAT and excise recoverable	1,087	1,085
Short-term loans receivable of banking subsidiaries (net of provisions of $25 million and $26 million as of March 31, 2004 and December 31, 2003, respectively)	489	549
Other current accounts receivable (net of provisions of $57 million and $63 million as of March 31, 2004 and December 31, 2003, respectively)	247	327
Total accounts and notes receivable, net	**3,904**	**3,790**

Note 8. Assets held for sale

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

Note 9. Short-term borrowings and current portion of long-term debt

	As of March 31, 2004	As of December 31, 2003
Short-term borrowings	1,168	1,001
Current portion of long-term debt	304	411
Total short-term borrowings and current portion of long-term debt	**1,472**	**1,412**

Short-term borrowings are loans from various third parties and are generally secured by export sales, property, plant and equipment and securities.

Note 10. Long-term debt

	As of March 31, 2004	As of December 31, 2003
Long-term loans and borrowings from third parties	2,510	2,322
3.5% Convertible US dollar bonds, maturing 2007	369	366
Capital lease obligation	115	115
Total long-term debt	2,994	2,803
Current portion of long-term debt	(304)	(411)
Total non-current portion of long-term debt	**2,690**	**2,392**

Long-term loans and borrowings

Long-term loans and borrowings are primarily repayable in US dollars, maturing from 2004 through 2027 and are generally secured by export sales, property, plant and equipment and securities.

Note 10. Long-term debt (continued)

Convertible US dollar bonds

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

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

Note 11. Comprehensive income

	For the three months ended March 31, 2004	For the three months ended March 31, 2003
Net income	819	820
Other comprehensive income (loss):		
Foreign currency translation adjustment	3	(1)
Comprehensive income	**822**	**819**

Note 12. Pension benefits

Components of net periodic benefit cost were as follows:

	For the three months ended March 31, 2004	For the three months ended March 31, 2003
Service cost	1	1
Interest cost	8	8
Less expected return on plan assets	(2)	(2)
Amortization of prior service cost	5	4
Actuarial gain	(1)	(1)
Total net periodic benefit cost	**11**	**10**

Note 13. Stockholders’ equity

Common stock

	As of March 31, 2004 (millions of shares)	As of December 31, 2003 (millions of shares)
Authorized and issued common stock, par value of 0.025 Russian rubles each	850	850
Common stock held by subsidiaries not considered as outstanding	(5)	(5)
Treasury stock	(28)	(26)
Outstanding common stock	817	819

Note 13. Stockholders' equity (continued)

Earnings per share

The calculation of diluted earnings per share for the reporting periods was as follows:

	For the three months ended March 31, 2004	For the three months ended March 31, 2003
Income before cumulative effect of change in accounting principle	819	688
Cumulative effect of change in accounting principle	-	132
Net income related to common shares	819	820
Add back convertible debt interest (net of tax at effective rate)		
1% Convertible US dollar bonds, maturing 2003	-	5
3.5% Convertible US dollar bonds, maturing 2007	7	7
Total diluted income before cumulative effect of change in accounting principle	826	700
Total diluted net income	826	832
Weighted average number of outstanding common shares (thousands of shares)	818,472	815,949
Add back treasury shares held in respect of convertible debt (thousands of shares)	16,727	23,784
Weighted average number of outstanding common shares, after dilution (thousands of shares)	835,199	839,733

Note 14. Financial guarantees

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

	As of March 31, 2004	As of December 31, 2003
Guarantees of equity investees' debt	719	718
Guarantees of third parties' debt	65	63
Total	**784**	**781**

Guarantees issued in regard to equity investees relate to their borrowings obtained to finance capital projects and for general corporate purposes. The Group entered into these guarantees to enhance the credit standing of affiliated companies (LUKARCO, ZAO Sever-TEK and ZAO LUKOIL-Neftegazstroy). Under the terms of the guarantees the Group would be required to perform should an affiliate be in default of its contractual terms, generally for the full amount as disclosed in the table above. There are no provisions for recourse to third parties, and no assets are held as collateral for the obligations of affiliates. One of the guarantees is secured by the shares of an affiliated company held by the Group, the carrying amount of which was approximately $14 million and $8 million as of March 31, 2004 and December 31, 2003, respectively. No collateral secures other guarantees. As of March 31, 2004, it is not probable that the Group will be required to make payments under these guarantees, and, therefore, no liability has been accrued related to these guarantees.

Note 15. Related party transactions

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

Note 15. Related party transactions (continued)

Below are related party transactions not disclosed elsewhere in the financial statements. Refer also to Note 8 for transactions with related parties.

Sales of oil and oil products to related parties were $19 million and $28 million for the three months ended March 31, 2004 and 2003, respectively.

Other sales to related parties were $11 million and $17 million for the three months ended March 31, 2004 and 2003, respectively.

Purchases of oil and oil products from related parties were $194 million and $91 million for the three months ended March 31, 2004 and 2003, respectively.

Purchases of construction services from related parties were $123 million and $85 million for the three months ended March 31, 2004 and 2003, respectively.

Purchases of insurance services from related parties were $36 million and $43 million during the three months ended March 31, 2004 and 2003, respectively.

Other purchases from related parties were $13 million and $8 million for the three months ended March 31, 2004 and 2003, respectively.

Amounts receivable from related parties, including loans and advances, were $246 million and $243 million as of March 31, 2004 and December 31, 2003, respectively. Amounts payable to related parties were $135 million and $128 million as of March 31, 2004 and December 31, 2003, respectively.

As of March 31, 2004 and December 31, 2003 the Government of the Russian Federation owned 8% of the shares of the common stock of the Company. The Russian Federation also owns, controls, or has significant influence over the operations of many other companies and enterprises in the Russian Federation and has a significant influence on the operation of business and the economic environment. A significant part of the activity of Group companies is linked to companies belonging to or controlled by the Russian Federation. The Russian Federation is a customer and supplier of the Group through numerous affiliated and other related organizations. Management consider such trading relationships as part of the normal course of conducting business in the Russian Federation and consider that such relationships will remain for the foreseeable future. Accordingly, information on these transactions is not disclosed as related party transactions.

Note 16. Compensation plan

During 2003, the Company introduced a compensation plan available to certain members of management, which provides compensation based upon share appreciation rights on the Company's common stock. The number of shares, or rights, allocated to the plan is approximately 11 million shares. These rights vest in December 2006. In connection with the plan through March 31, 2004 a Group company purchased approximately 11 million treasury shares at a total cost of $264 million. The Group has accrued a liability of $20 million as of March 31, 2004 and recorded $17 million of compensation expense during the three months ended March 31, 2004.

Note 17. Segment information

Presented below is information about the Group’s operating and geographical segments for the periods ended March 31, 2004 and 2003, in accordance with SFAS No. 131, *“Disclosures about Segments of an Enterprise and Related Information.”*

(Millions of US dollars, unless otherwise noted)

Note 17. Segment information (continued)

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

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

Operating segments

For the three months ended March 31, 2004

	Exploration and production	Refining, marketing and distribution	Chemicals	Other	Elimination	Consolidated
Sales						
Third parties	432	5,773	296	11	-	6,512
Inter-segment	1,730	85	2	13	(1,830)	-
Total sales	2,162	5,858	298	24	(1,830)	6,512
Operating expenses and total cost of purchases	632	3,434	240	8	(1,827)	2,487
Depreciation, depletion and amortization expense	157	88	1	2	-	248
Interest expense	10	38	1	25	(6)	68
Income tax expense	117	189	3	10	-	319
Net income	286	491	30	10	2	819
Total assets	16,358	15,126	308	1,884	(5,912)	27,764
Capital expenditures	508	240	8	5	-	761

For the three months ended March 31, 2003

	Exploration and production	Refining, marketing and distribution	Chemicals	Other	Elimination	Consolidated
Sales						
Third parties	381	4,476	195	4	-	5,056
Inter-segment	1,211	57	2	10	(1,280)	-
Total sales	1,592	4,533	197	14	(1,280)	5,056
Operating expenses and total cost of purchases	558	2,505	162	6	(1,284)	1,947
Depreciation, depletion and amortization expense	149	78	1	1	-	229
Interest expense	24	49	1	14	(26)	62
Income tax expense	46	216	2	4	-	268
Net income	195	561	10	7	47	820
Total assets	13,918	12,883	208	1,177	(4,704)	23,482
Capital expenditures	391	168	4	5	-	568

(Millions of US dollars, unless otherwise noted)

Note 17. Segment information (continued)

Geographical segments

	For the three months ended March 31, 2004	For the three months ended March 31, 2003
Sales of crude oil within Russia	68	51
Export of crude oil and sales of oil of foreign subsidiaries	2,257	1,639
Sales of refined product within Russia	856	839
Export of refined product and sales of refined products of foreign subsidiaries	2,698	2,077
Sales of chemicals within Russia	72	35
Export of chemicals and sales of chemicals by foreign subsidiaries	219	160
Other sales within Russia	191	153
Other export sales and other sales of foreign subsidiaries	151	102
Total sales	**6,512**	**5,056**

For the three months ended March 31, 2004

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	145	1,448	4,919	-	6,512
Inter-segment	1,004	2,316	4	(3,324)	-
Total sales	1,149	3,764	4,923	(3,324)	6,512
Operating expenses and total cost of purchases	301	1,395	4,112	(3,321)	2,487
Depreciation, depletion and amortization expense	86	126	36	-	248
Interest expense	4	61	18	(15)	68
Income tax expense	54	255	10	-	319
Net income	174	552	92	1	819
Total assets	7,142	16,775	7,727	(3,880)	27,764
Capital expenditures	264	365	132	-	761

For the three months ended March 31, 2003

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	102	1,281	3,673	-	5,056
Inter-segment	675	1,960	7	(2,642)	-
Total sales	777	3,241	3,680	(2,642)	5,056
Operating expenses and total cost of purchases	264	1,222	3,109	(2,648)	1,947
Depreciation, depletion and amortization expense	76	120	33	-	229
Interest expense	4	49	13	(4)	62
Income tax expense	10	253	5	-	268
Net income	62	705	71	(18)	820
Total assets	5,860	13,957	5,844	(2,179)	23,482
Capital expenditures	99	361	108	-	568

Note 18. Contingencies

Litigation and claims

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

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

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

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

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

Note 18. Contingencies (continued)

Other matters

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

Note 19. Subsequent events

Business combinations

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