OAO LUKOIL

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(prepared in accordance with US GAAP)

As of and for the three month period ended March 31, 2005

(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, 2005, the related consolidated statements of income and cash flows for the three-month periods ended March 31, 2005 and 2004. These consolidated financial statements are the responsibility of the management of OAO LUKOIL.

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

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

KPMG Limited

KPMG Limited
Moscow, Russian Federation
June 23, 2005

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

	Note	As of March 31, 2005 (unaudited)	As of December 31, 2004
Assets			
Current assets			
Cash and cash equivalents	4	1,198	1,257
Short-term investments		154	149
Accounts and notes receivable, net	5	5,041	3,867
Inventories		2,179	1,759
Prepaid taxes and other expenses		1,223	1,242
Other current assets		459	300
Total current assets		**10,254**	**8,574**
Investments		835	779
Property, plant and equipment		20,061	19,329
Deferred income tax assets		116	138
Goodwill and other intangible assets		617	610
Other non-current assets		349	331
Total assets		**32,232**	**29,761**
Liabilities and Stockholders' equity			
Current liabilities			
Accounts payable		1,879	1,787
Short-term borrowings and current portion of long-term debt	6	1,711	1,265
Taxes payable		1,932	1,238
Other current liabilities		289	255
Total current liabilities		**5,811**	**4,545**
Long-term debt	7	2,458	2,609
Deferred income tax liabilities		734	698
Asset retirement obligations		327	307
Other long-term liabilities		384	338
Minority interest in subsidiary companies		482	453
Total liabilities		**10,196**	**8,950**
Stockholders' equity	10		
Common stock		15	15
Treasury stock, at cost		(666)	(706)
Additional paid-in capital		3,569	3,564
Retained earnings		19,118	17,938
Total stockholders' equity		**22,036**	**20,811**
Total liabilities and stockholders' equity		**32,232**	**29,761**

President of OAO LUKOIL
Alekperov V.Y.

Chief accountant of OAO LUKOIL
Khoba L.N.

(Millions of US dollars, unless otherwise noted)

	Note	For the three months ended March 31, 2005 (unaudited)	For the three months ended March 31, 2004 (unaudited)
Revenues			
Sales (including excise and export tariffs)	15	10,557	6,512
Equity share in income of affiliates		59	70
Total revenues		**10,616**	**6,582**
Costs and other deductions			
Operating expenses		(782)	(660)
Cost of purchased crude oil, petroleum and chemical products		(3,380)	(1,827)
Transportation expenses		(837)	(649)
Selling, general and administrative expenses		(512)	(471)
Depreciation, depletion and amortization		(284)	(248)
Taxes other than income taxes		(1,297)	(740)
Excise and export tariffs		(1,775)	(857)
Exploration expense		(36)	(30)
Loss on disposal and impairment of assets		(17)	(25)
Income from operating activities		**1,696**	**1,075**
Interest expense		(55)	(68)
Interest and dividend income		18	42
Currency translation (loss) gain		(12)	59
Other non-operating income		13	46
Minority interest		(22)	(16)
Income before income taxes		**1,638**	**1,138**
Current income taxes		(490)	(311)
Deferred income taxes		32	(8)
Total income tax expense	3	**(458)**	**(319)**
Net income		**1,180**	**819**
Per share of common stock (US dollars):			
Basic	10	1.45	1.00
Diluted	10	1.43	0.99

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

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

	Note	For the three months ended March 31, 2005 (unaudited)	For the three months ended March 31, 2004 (unaudited)
Cash flows from operating activities			
Net income		**1,180**	**819**
Adjustments for non-cash items:			
Depreciation, depletion and amortization		284	248
Equity share in income of affiliates		(52)	(65)
Loss on disposal and impairment of assets		17	25
Deferred income taxes		(32)	8
Non-cash currency translation gain		(11)	(15)
Non-cash investing activities		(20)	(3)
All other items – net		90	(83)
Changes in operating assets and liabilities:			
Accounts and notes receivable		(998)	(175)
Short-term loans receivable of banking subsidiaries		(10)	60
Net movements of short-term borrowings of banking subsidiaries		13	(155)
Inventories		(333)	(43)
Accounts payable		28	(27)
Taxes payable		598	108
Other current assets and liabilities		(25)	(293)
Net cash provided by operating activities		**729**	**409**
Cash flows from investing activities			
Capital expenditures		(885)	(737)
Proceeds from sales of property, plant and equipment		5	59
Purchases of investments		(37)	(399)
Proceeds from sales of investments		18	64
Acquisitions of subsidiaries and minority shareholding interest, net of cash acquired		(210)	-
Net cash used in investing activities		**(1,109)**	**(1,013)**
Cash flows from financing activities			
Net movements of short-term borrowings		359	162
Proceeds from issuance of long-term debt		10	419
Principal payments of long-term debt		(81)	(248)
Dividends paid		(10)	(6)
Purchases of treasury stock		-	(310)
Proceeds from sales of treasury stock		46	266
Other – net		(2)	(1)
Net cash provided by financing activities		**322**	**282**
Effect of exchange rate changes on cash and cash equivalents		(1)	21
Net decrease in cash and cash equivalents		**(59)**	**(301)**
Cash and cash equivalents at beginning of the period		1,257	1,435
Cash and cash equivalents at end of the period	4	**1,198**	**1,134**

Supplemental disclosures of cash flow information

Interest paid	77	58
Income tax paid	475	323

Note 1. Basis of Financial Statement presentation

The accompanying interim consolidated financial statements and notes thereto of OAO LUKOIL (the "Company") and its subsidiaries (together, the "Group") have not been audited by independent accountants, except for the balance sheet at December 31, 2004. 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 interim consolidated 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, 2004 annual consolidated financial statements. The interim consolidated financial statements have been prepared following the accounting policies applied and disclosed in the December 31, 2004 consolidated financial statements. Prior period amounts have been reclassified, where applicable, to conform with current period presentation.

The results for the three-month period ended March 31, 2005 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 comprehensive income.

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

As of March 31, 2005 and December 31, 2004, exchange rates of 27.83 and 27.75 Russian rubles to the US dollar, respectively, 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.

(Millions of US dollars, unless otherwise noted)

Note 2. Recent accounting pronouncements

In April 2005 the FASB staff issued FASB Staff Position (FSP) No. FAS 19-1 "*Accounting for Suspended Well Costs*". FSP 19-1 amends SFAS 19 *"Financial Accounting and Reporting by Oil and Gas Producing Companies"* to revise the criteria for continued capitalization of costs in relation to exploratory wells and exploratory-type stratigraphic wells. As amended, SFAS 19 allows continued capitalization of such costs for more than one year, provided (a) the well has found a sufficient quantity of reserves to justify its completion as a producing well and (b) the company is making sufficient progress assessing the reserves and the economic and operating viability of the project. If either condition is not met or if a company obtains information that raises substantial doubt about the economic or operational viability of the project, the exploratory well would be assumed impaired, and its costs, net of any salvage value, would be charged to expense. FSP 19-1 also requires certain additional disclosures in relation to suspended well costs. The FSP 19-1 is effective in the first reporting period beginning after April 4, 2005.

The management does not believe the amended guidance will result in any material impact on the Group's financial statements. Following adoption of the changes, certain exploration costs which would have been charged to the income statement will remain capitalized and will instead be subject to depreciation, depletion and amortization in future periods.

Note 3. Income taxes

Operations in the Russian Federation are subject to Federal and city income tax rates that total 9.5% and a regional tax rate that varies from 10.5% to 14.5% at the discretion of the individual regional administration. Substantially all of the Group's operations in Russia were subject to a combined statutory income tax rate of 24%.

Note 4. Cash and cash equivalents

	As of March 31, 2005	As of December 31, 2004
Cash held in Russian rubles	194	218
Cash held in other currencies	669	557
Cash of a banking subsidiary in other currencies	96	176
Cash held in affiliated banks in Russian rubles	149	255
Cash held in affiliated banks in other currencies	90	51
Total cash and cash equivalents	**1,198**	**1,257**

Note 5. Accounts and notes receivable

	As of March 31, 2005	As of December 31, 2004
Trade accounts and notes receivable (net of provisions of $94 million and $85 million as of March 31, 2005 and December 31, 2004, respectively)	3,064	2,316
Current VAT and excise recoverable	1,728	1,302
Short-term loans receivable of banking subsidiaries	35	25
Other current accounts receivable (net of provisions of $52 million and $66 million as of March 31, 2005 and December 31, 2004, respectively)	214	224
Total accounts and notes receivable, net	**5,041**	**3,867**

(Millions of US dollars, unless otherwise noted)

Note 6. Short-term borrowings and current portion of long-term debt

	As of March 31, 2005	As of December 31, 2004
Short-term borrowings from third parties	1,290	875
Short-term borrowings from related parties	12	18
Current portion of long-term debt	409	372
Total short-term borrowings and current portion of long-term debt	**1,711**	**1,265**

Note 7. Long-term debt

	As of March 31, 2005	As of December 31, 2004
Long-term loans and borrowings from third parties	2,208	2,276
Long-term loans and borrowings from related parties	5	14
3.5% Convertible US dollar bonds, maturing 2007	384	380
7.25% Russian ruble bonds, maturing 2009	216	216
Capital lease obligation	54	95
Total long-term debt	2,867	2,981
Current portion of long-term debt	(409)	(372)
Total non-current portion of long-term debt	**2,458**	**2,609**

Long-term loans and borrowings

Long-term loans and borrowings are primarily repayable in US dollars, maturing from 2005 through 2017 and are generally secured by export sales, property, plant and equipment and securities.

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 12.112 (previously 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.

Russian ruble bonds

In November 2004, the Company issued 6 million Russian ruble bonds with a nominal value of 1,000 Russian rubles each, maturing on November 23, 2009. For a period of 7 days commencing on November 13, 2007 the bonds holders have the right to demand the Company repurchase the bonds. The bonds have a half year coupon period and bear interest at 7.25% per annum.

Note 8. Comprehensive income

	For the three months ended March 31, 2005	For the three months ended March 31, 2004
Net income	1,180	819
Other comprehensive income:		
Foreign currency translation adjustment	-	3
Comprehensive income	**1,180**	**822**

Note 9. Pension benefits

Components of net periodic benefit cost were as follows:

	For the three months ended March 31, 2005	For the three months ended March 31, 2004
Service cost	1	1
Interest cost	5	8
Less expected return on plan assets	(1)	(2)
Amortization of prior service cost	3	5
Actuarial gain	(1)	(1)
Total net periodic benefit cost	**7**	**11**

Note 10. Stockholders' equity

Common stock

	As of March 31, 2005 (millions of shares)	As of December 31, 2004 (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	(32)	(34)
Outstanding common stock	813	811

Earnings per share

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

	For the three months ended March 31, 2005	For the three months ended March 31, 2004
Net income	**1,180**	**819**
Add back convertible debt interest (net of tax at effective rate)		
3.5% Convertible US dollar bonds, maturing 2007	7	7
Total diluted net income	1,187	826
Weighted average number of outstanding common shares (thousands of shares)	813,036	818,472
Add back treasury shares held in respect of convertible debt (thousands of shares)	16,957	16,727
Weighted average number of outstanding common shares, after dilution (thousands of shares)	829,993	835,199

Note 11. Business combinations

In March 2005, a Group company acquired 100% interest in Oy Teboil Ab and Suomen Petrooli Oy for $160 million. Oy Teboil Ab and Suomen Petrooli Oy are marketing and distribution companies mainly engaged in operating a chain of retail petrol stations, wholesale of refined products and production and sale of lubricants in Finland.

In January 2005, a Group company acquired an additional 22% interest in LUKOIL Neftochim Bourgas AD for $56 million (20.7% interest was acquired from a related party for $52 million). The acquisition increased the Group's ownership stake in LUKOIL Neftochim Bourgas AD to 93.2%.

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.

(Millions of US dollars, unless otherwise noted)

Note 12. Financial guarantees

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

	As of March 31, 2005	As of December 31, 2004
Guarantees of equity investees' debt	622	629
Guarantees of third parties' debt	18	13
Total	**640**	**642**

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 Globalstroy-Engineering - formerly 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 $32 million and $31 million as of March 31, 2005 and December 31, 2004, respectively. No collateral secures other guarantees. As of March 31, 2005, 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 13. 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 were primarily to and from affiliated companies and the Company's shareholder ConocoPhillips. Purchases of construction services were primarily from affiliated companies.

Below are related party transactions not disclosed elsewhere in the financial statements. Refer also to Notes 4, 6, 7, 11 and 12 for transactions with related parties.

Sales of oil and oil products to related parties were $62 million and $19 million for the three months ended March 31, 2005 and 2004, respectively.

Other sales to related parties were $17 million and $11 million for the three months ended March 31, 2005 and 2004, respectively.

Purchases of oil and oil products from related parties were $422 million and $194 million for the three months ended March 31, 2005 and 2004, respectively.

Purchases of construction services from related parties were $183 million and $123 million for the three months ended March 31, 2005 and 2004, respectively.

Purchases of insurance services from related parties were $35 million and $36 million during the three months ended March 31, 2005 and 2004, respectively.

Other purchases from related parties were $14 million and $13 million for the three months ended March 31, 2005 and 2004, respectively.

Amounts receivable from related parties, including loans and advances, were $249 million and $225 million as of March 31, 2005 and December 31, 2004, respectively. Amounts payable to related parties were $165 million and $150 million as of March 31, 2005 and December 31, 2004, respectively.

(Millions of US dollars, unless otherwise noted)

Note 14. 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, 2005 a Group company purchased approximately 11 million shares at a total cost of $269 million, which are included in treasury stock. The Group has accrued a liability of $92 million and $68 million as of March 31, 2005 and December 31, 2004, respectively, and recorded $33 million and $17 million of compensation expense during the three months ended March 31, 2005 and 2004, respectively.

Note 15. Segment information

Presented below is information about the Group’s operating and geographical segments for the periods ended March 31, 2005 and 2004, in accordance with SFAS No. 131, *“Disclosures about Segments of an Enterprise and Related Information.”*

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, 2005

	Exploration and production	Refining, marketing and distribution	Chemicals	Other	Elimination	Consolidated
Sales						
Third parties	277	9,819	455	6	-	10,557
Inter-segment	2,610	219	6	31	(2,866)	-
Total sales	2,887	10,038	461	37	(2,866)	10,557
Operating expenses and total cost of purchases	612	5,929	331	26	(2,736)	4,162
Depreciation, depletion and amortization expense	176	103	2	3	-	284
Interest expense	13	72	-	8	(38)	55
Income tax expense	129	317	10	2	-	458
Net income (loss)	332	909	74	(46)	(89)	1,180
Total assets	20,337	23,455	622	3,339	(15,521)	32,232
Capital expenditures	654	260	10	14	-	938

(Millions of US dollars, unless otherwise noted)

Note 15. Segment information (continued)

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	479	30	22	2	819
Total assets	16,358	14,741	308	4,015	(7,658)	27,764
Capital expenditures	508	240	8	5	-	761

Geographical segments

	For the three months ended March 31, 2005	**For the three months ended March 31, 2004**
Sales of crude oil within Russia	9	68
Export of crude oil and sales of oil of foreign subsidiaries	3,465	2,257
Sales of refined product within Russia	1,309	856
Export of refined product and sales of refined products of foreign subsidiaries	4,912	2,698
Sales of chemicals within Russia	113	72
Export of chemicals and sales of chemicals by foreign subsidiaries	331	219
Other sales within Russia	228	191
Other export sales and other sales of foreign subsidiaries	190	151
Total sales	**10,557**	**6,512**

For the three months ended March 31, 2005

	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	77	1,816	8,664	-	10,557
Inter-segment	1,538	4,082	4	(5,624)	-
Total sales	1,615	5,898	8,668	(5,624)	10,557
Operating expenses and total cost of purchases	317	1,942	7,418	(5,515)	4,162
Depreciation, depletion and amortization expense	90	137	57	-	284
Interest expense	5	40	22	(12)	55
Income tax expense	38	384	36	-	458
Net income	177	997	152	(146)	1,180
Total assets	7,990	22,373	14,362	(12,493)	32,232
Capital expenditures	292	448	198	-	938

(Millions of US dollars, unless otherwise noted)

Note 15. Segment information (continued)

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

Note 16. Contingencies

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 frequently 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. In the Russian Federation a tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation. 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 other republics of the former Soviet Union, 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 on the financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Note 16. Contingencies (continued)

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"). ADC claims, among other things, that the Defendants interfered with the transfer of a diamond exploration license to Almazny Bereg, a joint venture between ADC and AGD. The total damages claimed by ADC are approximately $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 personal 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 upheld the October 15, 2002 decision of the District Court. On April 17, 2004, ADC filed a motion for rehearing that was denied on June 17, 2004. ADC then filed a petition for writ of certiorari with the Colorado Supreme Court on July 16, 2004. On January 10, 2005 the Colorado Supreme Court granted certiorari on a narrow issue: whether the Court of Appeals erred by concluding that a trial court may decide a motion to dismiss for lack of personal jurisdiction by weighing and resolving factual issues without an evidentiary hearing. The Colorado Supreme Court declined to review ADC's other requested issue concerning jurisdiction. Written briefs are being submitted to the Colorado Supreme Court by the parties and, at present, no date has been set for oral arguments of this case. Management does not believe that the ultimate resolution of this matter will have a material adverse effect on the Group's financial condition.

On February 20, 2004 the Stockholm District Court overturned the decision of the Arbitral Tribunal of the Arbitration Institute of the Stockholm Chamber of Commerce made on June 25, 2001 dismissing ADC's action against AGD based on lack of jurisdiction. ADC's lawsuit against AGD was initially filed with the Arbitral Tribunal of the Arbitration Institute of the Stockholm Chamber of Commerce claiming alleged non-performance under an agreement between the parties and its obligation to transfer the diamond exploration license to Almazny Bereg. This lawsuit claimed compensation of damages amounting to $492 million. In March 2004 AGD filed an appeal against the Stockholm District Court decision with the Swedish Court of Appeals. The decision of the Swedish Court of Appeals is expected to be issued during 2005. 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.