OAO LUKOIL

CONSOLIDATED FINANCIAL STATEMENTS

(prepared in accordance with US GAAP)

As of December 31, 2004 and 2003
and for each of the years in the three year period
ended December 31, 2004

Independent Auditors' Report

To the Board of Directors of OAO LUKOIL:

We have audited the accompanying consolidated balance sheets of OAO LUKOIL and its subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the management of OAO LUKOIL. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OAO LUKOIL and its subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

KPMG Limited

KPMG Limited
Moscow, Russian Federation
May 24, 2005

OAO LUKOIL
Consolidated Balance Sheets
As of December 31, 2004 and 2003
(Millions of US dollars, unless otherwise noted)

	Note	2004	2003
Assets			
Current assets			
Cash and cash equivalents	3	1,257	1,435
Short-term investments		149	251
Accounts and notes receivable, net	5	3,867	3,790
Inventories	6	1,759	1,243
Prepaid taxes and other expenses		1,242	897
Other current assets		300	255
Assets held for sale	10	-	52
Total current assets		**8,574**	**7,923**
Investments	7	779	594
Property, plant and equipment	8	19,329	16,859
Deferred income tax assets	13	138	117
Goodwill and other intangible assets	9	610	523
Other non-current assets		331	558
Total assets		**29,761**	**26,574**
Liabilities and Stockholders' equity			
Current liabilities			
Accounts payable		1,787	1,564
Short-term borrowings and current portion of long-term debt	11	1,265	1,412
Customer deposits and other borrowings of banking subsidiaries		3	1,007
Taxes payable		1,238	943
Other current liabilities		252	345
Total current liabilities		**4,545**	**5,271**
Long-term debt	12, 16	2,609	2,392
Deferred income tax liabilities	13	698	497
Asset retirement obligations	8	307	210
Other long-term liabilities		338	249
Minority interest in subsidiary companies		453	483
Total liabilities		**8,950**	**9,102**
Stockholders' equity	15		
Common stock		15	15
Treasury stock, at cost		(706)	(435)
Additional paid-in capital		3,564	3,522
Retained earnings		17,938	14,371
Accumulated other comprehensive loss		-	(1)
Total stockholders' equity		**20,811**	**17,472**
Total liabilities and stockholders' equity		**29,761**	**26,574**

President of OAO LUKOIL
Alekperov V.Y.

Chief accountant of OAO LUKOIL
Khoba L.N.

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

OAO LUKOIL
Consolidated Statements of Income
For the years ended December 31, 2004, 2003 and 2002
(Millions of US dollars, unless otherwise noted)

	Note	2004	2003	2002
Revenues				
Sales (including excise and export tariffs)	22	33,845	22,118	15,334
Equity share in income of affiliates	7	213	181	115
Total revenues		**34,058**	**22,299**	**15,449**
Costs and other deductions				
Operating expenses		(2,880)	(2,546)	(2,403)
Cost of purchased crude oil, petroleum and chemical products		(10,124)	(5,909)	(2,693)
Transportation expenses		(2,784)	(2,052)	(1,414)
Selling, general and administrative expenses		(2,024)	(1,800)	(1,313)
Depreciation, depletion and amortization		(1,075)	(920)	(824)
Taxes other than income taxes	13	(3,505)	(2,456)	(1,972)
Excise and export tariffs		(5,248)	(2,954)	(1,996)
Exploration expense		(171)	(136)	(89)
Gain from sale of interest in Azeri Chirag Guneshli	10	-	1,130	-
Loss on disposal and impairment of assets		(213)	(69)	(83)
Income from operating activities		**6,034**	**4,587**	**2,662**
Interest expense		(300)	(273)	(222)
Interest and dividend income		180	139	160
Currency translation gain		135	148	40
Other non-operating income		21	11	11
Minority interest		(62)	(36)	(69)
Income before income taxes		**6,008**	**4,576**	**2,582**
Current income taxes		(1,614)	(939)	(834)
Deferred income taxes		(146)	(68)	95
Total income tax expense	13	**(1,760)**	**(1,007)**	**(739)**
Income before cumulative effect of change in accounting principle		**4,248**	**3,569**	**1,843**
Cumulative effect of change in accounting principle, net of tax		-	132	-
Net income		**4,248**	**3,701**	**1,843**
Per share of common stock (US dollars):				
Income before cumulative effect of change in accounting principle				
Basic	15	5.20	4.36	2.26
Diluted	15	5.13	4.30	2.26
Net Income				
Basic	15	5.20	4.52	2.26
Diluted	15	5.13	4.45	2.26

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

OAO LUKOIL
Consolidated Statements of Stockholders' Equity and Comprehensive Income
For the years ended December 31, 2004, 2003 and 2002
(Millions of US dollars, unless otherwise noted)

	2004		2003		2002	
	Stockholders' equity	Comprehen-sive income	Stockholders' equity	Comprehen-sive income	Stockholders' equity	Comprehen-sive income
Common stock						
Balance at January 1	15		15		15	
Outstanding at December 31	**15**		**15**		**15**	
Treasury stock						
Balance at January 1	(435)		(428)		(403)	
Stock purchased	(502)		(368)		(326)	
Stock sold	231		361		301	
Balance at December 31	**(706)**		**(435)**		**(428)**	
Additional paid-in capital						
Balance at January 1	3,522		3,229		3,044	
Premium on non-outstanding shares issued	-		38		170	
Proceeds from sale of treasury stock in excess of carrying amount	42		255		15	
Balance at December 31	**3,564**		**3,522**		**3,229**	
Retained earnings						
Balance at January 1	14,371	-	11,186	-	9,738	-
Net income	4,248	4,248	3,701	3,701	1,843	1,843
Dividends on common stock	(681)	-	(516)	-	(395)	-
Balance at December 31	**17,938**		**14,371**		**11,186**	
Accumulated other comprehensive loss, net of tax						
Balance at January 1	(1)	-	(2)		(9)	
Foreign currency translation adjustment	1	1	1	1	(7)	(7)
Minimum pension liability adjustment	-	-	-	-	14	14
Balance at December 31	**-**		**(1)**		**(2)**	
Total comprehensive income for the year		4,249		3,702		1,850
Total stockholders' equity as of December 31	**20,811**		**17,472**		**14,000**	

	Share activity		
	2004	2003	2002
	(millions of shares)	(millions of shares)	(millions of shares)
Common stock, issued			
Balance at January 1	850	850	850
Balance at December 31	**850**	**850**	**850**
Treasury stock			
Balance at January 1	(26)	(27)	(26)
Purchase of treasury stock	(18)	(19)	(21)
Sales of treasury stock	10	20	20
Balance at December 31	**(34)**	**(26)**	**(27)**

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

OAO LUKOIL
Consolidated Statements of Cash Flows
For the years ended December 31, 2004, 2003 and 2002
(Millions of US dollars)

	Note	2004	2003	2002
Cash flows from operating activities				
Net income		**4,248**	**3,701**	**1,843**
Adjustments for non-cash items:				
Cumulative effect of change in accounting principle		-	(132)	-
Depreciation, depletion and amortization		1,075	920	824
Equity share in income of affiliates		(169)	(122)	(100)
Gain from sale of interest in Azeri Chirag Guneshli	10	-	(1,130)	-
Loss on disposal and impairment of assets		213	69	83
Deferred income taxes		146	68	(95)
Non-cash currency translation (gain) loss		(4)	17	(21)
Non-cash investing activities		(123)	(64)	(72)
All other items – net		139	80	78
Changes in operating assets and liabilities:				
Accounts and notes receivable		(694)	(797)	(125)
Short-term loans receivable of banking subsidiaries		(101)	(223)	39
Net movements of short-term borrowings of banking subsidiaries		(90)	341	171
Inventories		(571)	(153)	(201)
Accounts payable		306	186	(273)
Taxes payable		310	284	30
Other current assets and liabilities		(505)	(109)	215
Net cash provided by operating activities		**4,180**	**2,936**	**2,396**
Cash flows from investing activities				
Capital expenditures		(3,248)	(2,881)	(2,072)
Proceeds from sale of property, plant and equipment		99	62	34
Purchases of investments		(540)	(459)	(302)
Proceeds from sale of investments		242	374	118
Proceeds from sale of interest in Azeri Chirag Guneshli	10	-	1,337	-
Sale of subsidiaries, net of cash disposed		183	-	-
Acquisitions of subsidiaries, net of cash acquired		(477)	(1,225)	(168)
Net cash used in investing activities		**(3,741)**	**(2,792)**	**(2,390)**
Cash flows from financing activities				
Net movements of short-term borrowings		(170)	220	203
Proceeds from issuance of long-term debt		1,191	1,445	879
Principal payments of long-term debt		(778)	(1,124)	(579)
Dividends paid		(661)	(467)	(423)
Proceeds from issuance of common stock		-	-	18
Purchase of treasury stock		(502)	(368)	(326)
Proceeds from sale of treasury stock		273	290	316
Other – net		(3)	-	8
Net cash (used in) provided by financing activities		**(650)**	**(4)**	**96**
Effect of exchange rate changes on cash and cash equivalents		33	43	(20)
Net (decrease) increase in cash and cash equivalents		**(178)**	**183**	**82**
Cash and cash equivalents at beginning of year		1,435	1,252	1,170
Cash and cash equivalents at end of year	3	**1,257**	**1,435**	**1,252**
Supplemental disclosures of cash flow information				
Interest paid		291	320	285
Income taxes paid		1,803	895	875

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

Note 1. Organization and environment

The primary activities of OAO LUKOIL (the “Company”) and its subsidiaries (together, the “Group”) are oil exploration, production, refining, marketing and distribution. The Company is the ultimate parent entity of this vertically integrated group of companies.

The Group was established in accordance with Presidential Decree 1403, issued on November 17, 1992 under which, on April 5, 1993, the Russian Federation (the “State”) transferred to the Company 51% of the voting shares of fifteen enterprises, and Government Resolution 861 issued on September 1, 1995 under which, during 1995, a further nine enterprises were transferred to the Group. Since 1995 the Group has carried out a share exchange program to increase its shareholding in each of the twenty-four founding subsidiaries to 100%.

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

Business and economic environment

The Russian Federation has been experiencing political and economic change, which has affected and will continue to affect the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks, which do not typically exist in other markets.

The accompanying financial statements reflect management’s assessment of the impact of the business environment in the countries in which the Group operates on the operations and the financial position of the Group. The future business environments may differ from management’s assessment.

Basis of preparation

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

Note 2. Summary of significant accounting policies

Principles of consolidation

The financial position and results of subsidiaries of which the Company directly or indirectly owns more than 50% of the voting interest and which the Company controls, are included with the financial position and results of the Company in these consolidated financial statements. Other significant investments in companies of which the Company directly or indirectly owns between 20% and 50% of the voting interest and over which the Company exercises significant influence but not control, are accounted for using the equity method of accounting. Investments in other companies are included in “Investments.”

Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying value of oil and gas properties, goodwill impairment assessment, asset retirement obligations, deferred income taxes, valuation of financial instruments, and obligations related to employee benefits. Eventual actual amounts could differ from those estimates.

Note 2. Summary of significant accounting policies (continued)

Revenue recognition

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

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

Foreign currency translation

The 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 December 31, 2004, 2003 and 2002, exchange rates of 27.75, 29.45 and 31.78 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.

Cash and cash equivalents

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

Cash with restrictions on immediate use

Cash funds for which restrictions on immediate use exist are accounted for within other non-current assets. Interest bearing security deposits with credit institutions that do not reduce the balance on long-term loan accounts are accounted for within long-term investments.

Accounts and notes receivable

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

Note 2. Summary of significant accounting policies (continued)

Inventories

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

Investments

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

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

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

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

Property, plant and equipment

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

Depreciation, depletion and amortization of capitalized costs of oil and gas properties is calculated using the unit-of-production method based upon proved reserves for the cost of property acquisitions and proved developed reserves for exploration and development costs.

Production and related overhead costs are expensed as incurred.

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

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

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

Note 2. Summary of significant accounting policies (continued)

Goodwill and other intangible assets

Goodwill represents the excess of purchase price over the fair value of net assets acquired. The Group adopted the provisions of SFAS No. 142, "*Goodwill and Other Intangible Assets*" as of January 1, 2002. Under SFAS No. 142 goodwill and intangible assets with indefinite useful lives are no longer amortized as they were prior to 2002, but are instead tested for impairment at least annually.

Intangible assets that have limited useful lives are amortized on a straight-line basis over the shorter of their useful or legal lives.

Impairment of long-lived assets

In accordance with SFAS No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets,*" long-lived assets, such as oil and gas properties, other property, plant, and equipment, and purchased intangibles subject to amortization, are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to the estimated undiscounted future cash flows expected to be generated by that group. If the carrying amount of an asset group exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by writing down the carrying amount to the estimated fair value of the asset group, generally determined as discounted future net cash flows. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale are presented separately in the appropriate asset and liability sections of the balance sheet.

Deferred income taxes

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

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

Interest-bearing borrowings

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

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

Note 2. Summary of significant accounting policies (continued)

Pension benefits

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

Treasury stock

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

Earnings per share

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

Contingencies

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

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

Environmental expenditures

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

Use of derivative instruments

The Group participates in certain limited petroleum products marketing and trading activity outside of its physical crude oil and petroleum products businesses. The Group's derivative activity is limited to these marketing and trading activities and hedging of commodity price risks. Currently this activity involves only the use of futures and swaps contracts together with purchase and sale contracts that qualify as derivative instruments. The Group accounts for these activities under the mark-to-market methodology in which the derivatives are revalued each accounting period. Resulting realized and unrealized gains or losses are presented in the consolidated statement of income on a net basis. Unrealized gains and losses are carried as assets or liabilities on the consolidated balance sheet.

(Millions of US dollars, except as indicated)

Note 2. Summary of significant accounting policies (continued)

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 did not have a material impact on the Group's results of operations, financial position or cash flows.

Cumulative effect of change in accounting principle

Effective January 1, 2003, the Group adopted SFAS No. 143, *"Accounting for Asset Retirement Obligations."* This new accounting standard applies to legal obligations associated with the retirement of tangible long-lived assets. SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. Subsequently, the liability is accreted for the passage of time and the related asset is depreciated over its estimated useful life.

Upon adoption of SFAS No. 143, the Group recorded a cumulative-effect adjustment resulting in an increase to net income of $132 million (net of income tax of $46 million), including the Group's share of the effect of adoption by its equity affiliates. 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 an increase in the asset retirement obligation of $140 million.

If the provisions of SFAS No. 143 had been adopted as of January 1, 2002, the Group's 2002 net income would have been $24 million more than the reported 2002 net income. The Group's 2002 basic and diluted earnings per share would have been $0.03 more than reported.

Comparative amounts

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. Certain other prior period amounts have been reclassified to conform with current period presentation.

Note 3. Cash and cash equivalents

	As of December 31, 2004	As of December 31, 2003
Cash held in Russian rubles	218	258
Cash held in other currencies	557	510
Cash of banking subsidiaries in Russian rubles	-	437
Cash of banking subsidiaries in other currencies	176	230
Cash held in affiliated banks in Russian rubles	255	-
Cash held in affiliated banks in other currencies	51	-
Total cash and cash equivalents	**1,257**	**1,435**

(Millions of US dollars, except as indicated)

Note 4. Non-cash transactions

The consolidated statement of cash flows excludes the effect of non-cash transactions, which are described in the following table:

	Year ended December 31, 2004	Year ended December 31, 2003	Year ended December 31, 2002
Net non-cash investing activity	123	64	72
Settlement of bond liability with the Company's common stock	-	395	152
Total non-cash transactions	**123**	**459**	**224**

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

	Year ended December 31, 2004	Year ended December 31, 2003	Year ended December 31, 2002
Net cash used in investing activity	3,741	2,792	2,390
Net non-cash investing activity	123	64	72
Total investing activity	**3,864**	**2,856**	**2,462**

Note 5. Accounts and notes receivable

	As of December 31, 2004	As of December 31, 2003
Trade accounts and notes receivable (net of provisions of $85 million and $90 million as of December 31, 2004 and 2003, respectively)	2,316	1,829
Current VAT and excise recoverable	1,302	1,085
Short-term loans receivable of banking subsidiaries (net of provisions of nil and $26 million as of December 31, 2004 and 2003, respectively)	25	549
Other current accounts receivable (net of provisions of $66 million and $63 million as of December 31, 2004 and 2003, respectively)	224	327
Total accounts and notes receivable	**3,867**	**3,790**

Note 6. Inventories

	As of December 31, 2004	As of December 31, 2003
Crude oil and petroleum products	1,310	789
Materials for extraction and drilling	162	174
Materials and supplies for refining	49	40
Other goods, materials and supplies	238	240
Total inventories	**1,759**	**1,243**

Note 7. Investments

	As of December 31, 2004	As of December 31, 2003
Investments in "equity method" affiliates and joint ventures	559	384
Long-term loans given by non-banking subsidiaries	197	116
Other long-term investments	23	94
Total long-term investments	**779**	**594**

(Millions of US dollars, except as indicated)

Note 7. Investments (continued)

Investments in "equity method" affiliates and joint ventures

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

	Year ended December 31, 2004		**Year ended December 31, 2003**		**Year ended December 31, 2002**	
	Total	Group's share	Total	Group's share	Total	Group's share
Revenues	2,885	1,313	1,676	757	1,516	660
Income before income taxes	761	392	444	235	333	171
Less income taxes	(362)	(179)	(106)	(54)	(109)	(56)
Net income	**399**	**213**	**338**	**181**	**224**	**115**

	As of December 31, 2004		**As of December 31, 2003**	
	Total	Group's share	Total	Group's share
Current assets	2,727	832	659	289
Property, plant and equipment	2,073	1,081	2,180	1,146
Other non-current assets	457	77	52	24
Total assets	5,257	1,990	2,891	1,459
Short-term debt	1,803	396	374	159
Other current liabilities	692	320	310	143
Long-term debt	1,455	705	1,449	766
Other non-current liabilities	23	10	16	7
Net assets	**1,284**	**559**	**742**	**384**

Note 8. Property, plant and equipment and asset retirement obligations

	At cost		**Net**	
	As of December 31, 2004	**As of December 31, 2003**	**As of December 31, 2004**	**As of December 31, 2003**
Exploration and Production:				
Western Siberia	13,421	12,607	6,063	5,294
European Russia	11,237	10,725	6,434	5,962
International	1,459	1,065	1,305	994
Total	26,117	24,397	13,802	12,250
Refining, Marketing, Distribution and Chemicals:				
Western Siberia	28	52	23	41
European Russia	5,765	5,269	3,489	3,159
International	2,824	2,111	1,734	1,123
Total	8,617	7,432	5,246	4,323
Other:				
Western Siberia	154	132	77	64
European Russia	195	208	158	169
International	62	84	46	53
Total	411	424	281	286
Total property, plant and equipment	**35,145**	**32,253**	**19,329**	**16,859**

(Millions of US dollars, except as indicated)

Note 8. Property, plant and equipment and asset retirement obligations (continued)

As described in Note 2, effective January 1, 2003, the Group adopted SFAS No. 143 and began recording asset retirement obligations for estimated dismantlement, abandonment and restoration costs of property, plant and equipment in which a legal obligation exists. In accordance with SFAS No. 143, property, plant and equipment listed above include asset retirement costs associated with these asset retirement obligations.

As of December 31, 2004 and 2003, the asset retirement obligation amounted to $317 million and $220 million, respectively, of which $10 million was included in "Other current liabilities" as of each balance sheet date. Changes in the asset retirement obligation during the year ended December 31, 2004 primarily related to new liabilities incurred, accretion of the asset retirement obligation and changes in foreign exchange.

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.

Note 9. Goodwill and other intangible assets

The carrying value of goodwill and other intangible assets as of December 31, 2004 and 2003 was as follows:

	As of December 31, 2004	**As of December 31, 2003**
Amortized intangible assets		
Software	127	105
Licenses and other assets	66	31
Goodwill	417	387
Total goodwill and other intangible assets	**610**	**523**

The change in the carrying amount of goodwill for the year ended December 31, 2004 was as follows:

Balance as of January 1, 2004	387
Goodwill acquired during the year	30
Balance as of December 31, 2004	**417**

All goodwill amounts relate to the refining, marketing and distribution segment.

(Millions of US dollars, except as indicated)

Note 10. Dispositions and assets held for sale

In November, 2004, the Company entered into a contract to sell its 100% interest in OOO LUKOIL-Burenie and its subsidiaries (“LUKOIL-Burenie”) for $69 million. The terms of the contract required signing a five-year contract for drilling services (refer to Note 19 “Commitments and contingencies”) to be provided to the Group and revising the terms of Group financing previously provided to LUKOIL-Burenie. The transaction was completed at the end of December 2004. The Group recognized an impairment loss of $70 million in relation to this transaction.

In August 2004, the Company entered into contracts to sell its 99% ownership interest in OAO Bank Petrocommerce (the “Bank”) for $214 million to a group of companies of a related party, whose management and directors include members of the Group’s management and Board of Directors. The Company used an independent valuation in the determination of the selling price. The transaction was structured to be completed in two phases. The first phase, representing the sale of 78% of the Group’s ownership interest for $169 million was completed on September 22, 2004. The second phase in which the Group will sell its remaining 21% ownership interest in the Bank for $45 million is expected to be completed by the end of June 2007. The Group recognized an impairment loss of $35 million in relation to this transaction.

The Group accounts for its remaining 21% ownership interest in the Bank using the equity method of accounting with the carrying value of the investment limited to the contracted sale price. As of December 31, 2004 the carrying value of the Group’s investment in the Bank is $45 million and is included in “Investments” in the consolidated balance sheet.

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.

In April 2003 a Group company completed the sale of its 10% interest in the production sharing agreement operated by the Azerbaijan International Operating Company for net $1,337 million cash, resulting in the recognition of a net gain of $1,130 million during 2003. This gain is included in the “Exploration and production” operating segment and “International” geographical segment in Note 22 “Segment information.”

Note 11. Short-term borrowings and current portion of long-term debt

	As of December 31, 2004	As of December 31, 2003
Short-term borrowings from third parties	875	1,001
Short-term borrowings from related parties	18	-
Current portion of long-term debt	372	411
Total short-term borrowings and current portion of long-term debt	**1,265**	**1,412**

Short-term borrowings are loans from related parties and various third parties and are generally secured by export sales, property, plant and equipment and securities. The weighted-average interest rate on short-term borrowings from third parties was 5.0% per annum and 4.4% per annum as of December 31, 2004 and 2003, respectively.

(Millions of US dollars, except as indicated)

Note 12. Long-term debt

	As of December 31, 2004	As of December 31, 2003
Long-term loans and borrowings from third parties (including loans from banks in the amount of $1,878 million and $1,604 million as of December 31, 2004 and 2003, respectively)	2,276	2,322
Long-term loans and borrowings from related parties	14	-
3.5% Convertible US dollar bonds, maturing 2007	380	366
7.25% Russian ruble bonds, maturing 2009	216	-
Capital lease obligation	95	115
Total long-term debt	2,981	2,803
Current portion of long-term debt	(372)	(411)
Total non-current portion of long-term debt	**2,609**	**2,392**

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. The weighted-average interest rate on long-term loans and borrowings from third parties was 5.57% and 5.15% per annum as of December 31, 2004 and 2003, respectively.

A Group company has a revolving credit facility with International Bank of Reconstruction and Development that provides borrowings of up to $99 million. Borrowings under this credit facility bear interest at floating rates from 3.25% to 7.25%. At December 31, 2004 the amount outstanding under this credit facility was $50 million.

The Group has revolving credit facilities with a number of other banks that provide borrowings of up to $440 million. The weighted-average interest rate under these credit facilities was 6.37% per annum as of December 31, 2004. At December 31, 2004 amounts outstanding under these credit facilities were $285 million.

The Company has a loan agreement with ABN AMRO Bank that provides borrowings of up to $765 million. Borrowings under this agreement bear interest at LIBOR plus 2% for the first $465 million. The remaining $300 million bears interest at LIBOR plus 2.5%. At December 31, 2004 the amount outstanding under this agreement was $765 million.

The Company has a loan agreement with Raiffeisen Zentralbank Oesterreich AG that provides borrowings of up to $300 million. Borrowings under this agreement bear interest at LIBOR plus 3.5%. At December 31, 2004 the amount outstanding under this agreement was $129 million.

A Group company has a credit facility arranged by Credit Swiss First Boston that provides borrowings of up to $225 million. Borrowings under this credit facility bear interest at LIBOR plus 4.7%. At December 31, 2004 the amount outstanding under this credit facility was $225 million.

The Company has a loan agreement with Credit Swiss First Boston that provides borrowings of up to $200 million. Borrowings under this agreement bear interest at LIBOR plus 3.7%. At December 31, 2004 the amount outstanding under this agreement was $73 million.

As of December 31, 2004, the Group has other fixed term loans with a number of banks and organizations of $749 million, maturing from 2005 through 2017. The weighted average interest rate under these loans was 5.45% per annum as of December 31, 2004.

(Millions of US dollars, except as indicated)

Note 12. 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 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.

Maturities of long-term debt

Annual maturities of total long-term debt during the next five years, including the portion classified as current, are $372 million in 2005, $471 million in 2006, $774 million in 2007, $390 million in 2008, $393 million in 2009 and $581 million thereafter.

Note 13. Taxes

The Group is taxable in a number of jurisdictions within and outside of the Russian Federation and, as a result, is subject to a variety of taxes as established under the statutory provisions of each jurisdiction.

The total cost of taxation to the Group is reported in the consolidated statement of income as "Total income tax expense" for income taxes, as "Excise and export tariffs" for excise taxes, export tariffs and petroleum products sales taxes and as "Taxes other than income taxes" for other types of taxation. In each category taxation is made up of taxes levied at various rates in different jurisdictions.

Operations in the Russian Federation are subject to Federal and city 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 tax rate of 24%.

There are not currently, and have not been during the three years ended December 31, 2004, any provisions in the taxation legislation of the Russian Federation to permit the Group to reduce taxable profits in a Group company by offsetting tax losses in another Group company against such profits. Tax losses of a Group company in the Russian Federation may, however, be used fully or partially to offset taxable profits in the same company in any of the ten years following the year of loss, subject to the restriction that no more than 30% of the taxable profit in any given year can be reduced by loss relief.

Domestic and foreign components of income before income taxes were:

	Year ended December 31, 2004	**Year ended December 31, 2003**	**Year ended December 31, 2002**
Domestic	5,167	3,298	2,292
Foreign	841	1,278	290
Income before income taxes	**6,008**	**4,576**	**2,582**

(Millions of US dollars, except as indicated)

Note 13. Taxes (continued)

Domestic and foreign components of income taxes were:

	Year ended December 31, 2004	Year ended December 31, 2003	Year ended December 31, 2002
Current			
Domestic	1,511	883	821
Foreign	103	56	13
Current income tax expense	1,614	939	834
Deferred			
Domestic	76	49	(67)
Foreign	70	19	(28)
Deferred income tax expense (benefit)	146	68	(95)
Total income tax expense	**1,760**	**1,007**	**739**

The following table is a reconciliation of the amount of income tax expense that would result from applying the Russian statutory tax rate to income before income taxes to total income taxes:

	Year ended December 31, 2004	Year ended December 31, 2003	Year ended December 31, 2002
Income before income taxes	6,008	4,576	2,582
Notional income tax at Russian statutory rates	1,442	1,098	620
Increase (reduction) in income tax due to:			
Non-deductible items	301	168	155
Domestic and foreign rate differences	(19)	(18)	(77)
Non-taxable gain on sale of interest in Azeri Chirag Guneshli	-	(271)	-
Foreign currency effect	6	3	5
Change in valuation allowance	30	(1)	(25)
Other	-	28	61
Total income tax expense	**1,760**	**1,007**	**739**

Taxes other than income taxes were:

	Year ended December 31, 2004	Year ended December 31, 2003	Year ended December 31, 2002
Unified extraction tax	2,971	1,966	1,472
Road users' tax	-	-	126
Social taxes and contributions	330	257	198
Property tax	111	139	101
Other taxes and contributions	93	94	75
Taxes other than income taxes	**3,505**	**2,456**	**1,972**

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

	As of December 31, 2004	As of December 31, 2003
Other current assets	69	76
Deferred income tax assets – non-current	138	117
Other current liabilities	(16)	(15)
Deferred income tax liabilities – non-current	(698)	(497)
Net deferred income tax liability	**(507)**	**(319)**

(Millions of US dollars, except as indicated)

Note 13. Taxes (continued)

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

	As of December 31, 2004	As of December 31, 2003
Accounts receivable	18	46
Long-term liabilities	111	97
Inventories	29	19
Property, plant and equipment	115	56
Accounts payable	19	31
Long-term investments	5	4
Operating loss carry forward	131	71
Other	51	17
Total gross deferred income tax assets	479	341
Less valuation allowance	(70)	(40)
Deferred income tax assets	**409**	**301**
Property, plant and equipment	(714)	(518)
Accounts payable	(5)	(3)
Accounts receivable	(8)	(13)
Long-term liabilities	(72)	(19)
Inventories	(17)	(25)
Long-term investments	(83)	(37)
Other	(17)	(5)
Deferred income tax liabilities	**(916)**	**(620)**
Net deferred income tax liability	**(507)**	**(319)**

As of December 31, 2004, retained earnings of foreign subsidiaries included $3,511 million for which deferred taxation has not been provided because remittance of the earnings has been indefinitely postponed through reinvestment and, as a result, such amounts are considered to be permanently invested. The amount of deferred tax liability on this amount is not practicable to calculate.

In accordance with SFAS No. 52 and SFAS No. 109, *"Accounting for Income Taxes,"* deferred tax assets and liabilities are not recognized for exchange rate effects resulting from the translation of transactions and balances from the Russian ruble to the US dollar using historical exchange rates. Also, in accordance with SFAS No. 109, no deferred tax assets or liabilities are recognized for the effects of the related statutory indexation of property, plant and equipment.

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred income tax assets are deductible, management believes it is more likely than not that Group companies will realize the benefits of the deductible temporary differences and loss carry forwards, net of existing valuation allowances as of December 31, 2004 and 2003.

As of December 31, 2004, the Group had operating loss carry forwards of $497 million of which $8 million expire during 2010, $167 million expire during 2013, $49 million expire during 2014 and $273 million have indefinite carry forward.

(Millions of US dollars, except as indicated)

Note 14. Pension benefits

The Company sponsors a post employment and post retirement benefits program. The primary component of the post employment and postretirement benefits program is a defined benefit pension plan that covers the majority of the Group's employees. This plan is administered by a non-state pension fund, LUKOIL-GARANT, and provides pension benefits primarily based on years of service and final remuneration levels. The Company also provides several long-term employee benefits such as death-in-service benefit and lump-sum payments upon retirement of a defined benefit nature and other defined benefits to certain old age and disabled pensioners who have not vested any pensions under the pension plan.

In December 2003, the Company took the decision to replace its existing pension plan with a new plan. The new plan primarily consists of a defined benefit plan enabling employees to contribute a portion of their salary to the plan and at retirement to receive a lump sum amount from the Company equal to all past contributions made by the employee up to 7% of their annual salary. Employees also have the right to receive upon retirement the benefits accumulated under the previous pension plan. These benefits have been fixed and included in the benefit obligation as of December 31, 2004 and 2003. The amount was determined primarily based on a formula including past pensionable service and relative salaries as of December 31, 2003. The Company recorded a gain of $53 million during 2003 as a result of this curtailment.

The Company uses December 31 as the measurement date for its post employment and post retirement benefits program. An independent actuary has assessed the benefit obligations and the fair value of plan assets as of December 31, 2004 and 2003.

The following tables provides information about the benefit obligations, plan assets and actuarial assumptions used as of December 31, 2004 and 2003. The benefit obligations below represent the projected benefit obligation of the pension plan.

	Year ended December 31, 2004	**Year ended December 31, 2003**
Benefit obligations		
Benefit obligations at January 1	156	228
Effect of exchange rate changes	11	15
Service cost	7	5
Interest cost	14	34
Plan amendments	7	(6)
Actuarial loss (gain)	29	(7)
Benefits paid	(12)	(10)
Curtailment gain	(14)	(103)
Benefit obligations at December 31	**198**	**156**
Plan assets		
Fair value of plan assets at January 1	55	41
Effect of exchange rate changes	4	4
Return on plan assets	8	7
Employer contributions	14	13
Benefits paid	(12)	(10)
Assets transferred as a result of settlement	(6)	-
Fair value of plan assets at December 31	**63**	**55**

(Millions of US dollars, except as indicated)

Note 14. Pension benefits (continued)

	Year ended December 31, 2004	Year ended December 31, 2003
Funded status	(135)	(101)
Unamortized prior service cost	54	52
Unrecognized actuarial gain	(47)	(78)
Net amount recognized	**(128)**	**(127)**
Amounts recorded in the consolidated balance sheets were:		
Accrued benefit liabilities included in “Other long-term liabilities”	(128)	(127)
Assumptions:		
Discount rate	9.2%	9.2%
Expected return on plan assets	10.0%	9.4%

The real returns on bonds and equities are based on what is observed in the international markets over extended periods of time. In the calculation of the expected return on assets no use is made of the historical returns LUKOIL-GARANT has achieved.

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

The pension fund is funded on a discretionary basis through an account, which is held in trust with LUKOIL-GARANT. LUKOIL-GARANT does not allocate separately identifiable assets to the Group or its other third party clients. All funds from the account and individual pension accounts are managed as a pool of investments.

The asset allocation of the investment portfolio maintained by LUKOIL-GARANT for the Group and its clients follows:

Type of assets	As of December 31, 2004	As of December 31, 2003
Shares of OAO LUKOIL	8%	1%
Equity securities of Russian issuers	19%	7%
Russian municipal bonds	6%	2%
Russian corporate bonds	23%	34%
Promissory notes of Russian issuers	6%	47%
Bank deposits	8%	0%
Accounts receivable from investment companies	28%	0%
Other assets	2%	9%
	100%	100%

The investment strategy employed by LUKOIL-GARANT includes an overall goal to attain a maximum investment return, while guaranteeing a minimum annual return of 5%. The strategy is to invest with a medium-term perspective while maintaining a level of liquidity through proper allocation of investment assets. Investment policies include rules and limitations to avoid concentrations of investments.

The investment portfolio is primarily comprised of two types of investments: securities with fixed yield and equity securities. The securities with fixed yield include mainly high yield corporate bonds and promissory notes of banks with low and medium risk ratings. Maturities range from one to three years.

(Millions of US dollars, except as indicated)

Note 14. Pension benefits (continued)

The following table details the targeted investment mix for 2005 and the maximum limits on investment type.

Type of investment	**2005 Target Allocation**	**Maximum Allocation Allowed**
Russian corporate bonds	37%	50%
Promissory notes of Russian issuers	40%	50%
Equity securities of Russian issuers	13%	50%
Other, including bank deposits	10%	50%
	100%	

Components of net periodic benefit cost were as follows:

	Year ended December 31, 2004	**Year ended December 31, 2003**	**Year ended December 31, 2002**
Service cost	7	5	10
Interest cost	14	34	52
Less expected return on plan assets	(5)	(7)	(6)
Amortization of prior service cost	5	19	22
Actuarial (gain) loss	(5)	(4)	4
Curtailment gain	(8)	(53)	-
Total net periodic benefit cost (income)	**8**	**(6)**	**82**

Total employer contributions for 2005 are expected to be $27 million.

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid:

	2005	**2006**	**2007**	**2008**	**2009**	**5-year period 2005-2009**	**5-year period 2010-2014**
Pension benefits	15	9	10	9	13	56	59
Other long-term employee benefits	9	9	10	10	12	50	66
Total expected benefits to be paid	**24**	**18**	**20**	**19**	**25**	**106**	**125**

Note 15. Stockholders' equity

Dividends and dividend limitations

Profits available for distribution to common stockholders in respect of any reporting period are determined by reference to the statutory financial statements of the Company prepared in accordance with the laws of the Russian Federation and denominated in Russian rubles. Under Russian Law, dividends are limited to the net profits of the reporting year as set out in the statutory financial statements of the Company. These laws and other legislative acts governing the rights of shareholders to receive dividends are subject to various interpretations.

The Company's net profits were 78,028 million Russian rubles, 48,042 million Russian rubles and 47,538 million Russian rubles, respectively for 2004, 2003 and 2002, pursuant to the statutory financial statements, which at the US dollar exchange rates as of December 31, 2004, 2003 and 2002 amounted to $2,812 million, $1,631 million and $1,496 million, respectively.

Note 15. Stockholders' equity (continued)

At the annual stockholders' meeting on June 24, 2004, dividends were declared for 2003 in the amount of 24.00 Russian rubles per common share, which at the date of the meeting was equivalent to $0.83.

At the annual stockholders' meeting on June 26, 2003, dividends were declared for 2002 in the amount of 19.50 Russian rubles per common share, which at the date of the decision was equivalent to $0.64.

At the annual stockholders' meeting on June 27, 2002, dividends were declared for 2001 in the amount of 15.00 Russian rubles per common share, which at the date of the decision was equivalent to $0.48.

Common stock

	As of December 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	(34)	(26)
Outstanding common stock	811	819

Earnings per share

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

	Year ended December 31, 2004	Year ended December 31, 2003	Year ended December 31, 2002
Income before cumulative effect of change in accounting principle	4,248	3,569	1,843
Cumulative effect of change in accounting principle	-	132	-
Net income	4,248	3,701	1,843
Add back convertible debt interest (net of tax at effective rate)			
3.5% Convertible US dollar bonds, maturing 2002	-	-	6
1% Convertible US dollar bonds, maturing 2003	-	13	23
3.5% Convertible US dollar bonds, maturing 2007	27	27	1
Total diluted income before cumulative effect of change in accounting principle	4,275	3,609	1,873
Total diluted net income	4,275	3,741	1,873
Weighted average number of outstanding common shares (thousands of shares)	817,294	819,169	813,832
Add back treasury shares held in respect of convertible debt (thousands of shares)	16,847	20,977	13,942
Weighted average number of outstanding common shares, after dilution (thousands of shares)	834,141	840,146	827,774

Note 16. Financial and derivative instruments

Commodity derivative instruments

The Group's use of derivative instruments is limited to certain marketing and trading of petroleum products outside of its physical crude oil and products businesses and limited hedging of commodity price risks. It includes the use of futures and swaps contracts together with purchase and sale contracts that qualify as derivative instruments. The Group maintains a system of controls over these activities that includes policies covering the authorization, reporting and monitoring of derivative activity. The Group does not believe its derivative activities pose material credit or market risks to its operations, financial condition or liquidity. The Group recognized a net loss of $55 million, $37 million and $5 million during 2004, 2003 and 2002, respectively, associated with such activities. The fair value of derivative contracts outstanding and recorded on the consolidated balance sheet was a net asset of $28 million and a net liability of $1 million as of December 31, 2004 and 2003, respectively.

Fair value

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

The fair value of long-term receivables included in other non-current assets approximates the amounts disclosed in the consolidated financial statements as a result of discounting using estimated market interest rates for similar financing arrangements. The fair value of long-term debt differs from the amount disclosed in the consolidated financial statements. The estimated fair value of long-term debt as of December 31, 2004 and 2003 was $3,124 million and $2,851 million, respectively, as a result of discounting using estimated market interest rates for similar financing arrangements. These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion, and interest.

Note 17. Business combinations

In December 2004, a Group company acquired the remaining 50% interest in LUKAgip N.V. ("LUKAgip") for $143 million from Eni Group (of which $111 million represents repayment of debt to the Eni Group). The acquisition increased the Group's ownership in LUKAgip to 100%. LUKAgip owns a 24% interest in the Meleiha Hydrocarbon License Concession Agreement located onshore in Egypt. It also owns a 10% interest in the Shakh Deniz Exploration, Development and Production Sharing Agreement, 8% of the midstream gas marketing entity, the Azerbaijan Gas Supply Company, and 100% of LUKAgip Midstream B.V., which holds LUKAgip's 10% interest in the South Caucasus Pipeline Company.

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.

In November 2003, the Group acquired the remaining 49% of the share capital of OOO Bovel for $49 million. The acquisition increased the Group's ownership stake in OOO Bovel to 100%. OOO 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 the share capital of OAO Nakhodkaneftegaz for $45 million. The acquisition increased the Group's ownership stake in OAO Nakhodkaneftegaz to 100%. OAO Nakhodkaneftegaz is a Russian oil and gas exploration company with significant proved undeveloped reserves within the Yamal-Nenetsky Autonomous District of Northern Russia.

In October 2003, the Group acquired 79.5% of the share capital of Beopetrol for 117 million EUROs ($140 million). Beopetrol is a marketing and distribution company operating a chain of retail petrol stations in Serbia. Refer to Note 19 "Commitments and contingencies" for information about capital commitments associated with this acquisition.

(Millions of US dollars, except as indicated)

Note 17. Business combinations (continued)

In September 2003, the Group acquired 100% of the share capital of MV Properties for $121 million (of which $61 million represents repayment of debt to the previous owner). MV Properties is a marketing and distribution company that owns a chain of retail petrol stations in Romania.

In June 2003, the Group acquired the remaining 27% of the share capital in ZAO LUKOIL-Perm (reregistered as OOO LUKOIL-Perm in December 2003) 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.

In June 2003, the Group acquired 39.4% of the shares in OAO Tebukneft and 55.4% of the 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 the 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 the second half 2003, through several transactions the Group acquired an additional 8.9% of the shares in OAO Tebukneft, 12.2% of the shares in OAO Ukhtaneft and 22.6% of the remaining share capital in ZAO RKM-Oil, thereby increasing the Group's ownership stake in these companies to 93.9%, 97.7% and 100%, respectively. The total cost of the additional interests acquired in these companies was $29 million. OAO Tebukneft, OAO Ukhtaneft and ZAO RKM-Oil are exploration and production companies operating in the Komi Republic of the Russian Federation.

In April 2003, the Group acquired 80.8% of the shares in OAO Yaregskaya Nefte-Titan Company ("YaNTK") for $240 million, thereby increasing the Group's ownership stake in YaNTK to 98.8%. YaNTK is a company with significant oil and titanium reserves operating in the Komi Republic of the Russian Federation.

Note 18. Financial guarantees

The Group has entered into various guarantee arrangements. These arrangements arose in transactions related to enhancing the credit standing of affiliated companies (LUKARCO, ZAO Sever-TEK and ZAO LUKOIL-Neftegazstroy) and borrowings of the Group's suppliers.

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

	As of December 31, 2004	As of December 31, 2003
Guarantees of equity investees' debt	629	718
Guarantees of third parties' debt	13	63
Total	**642**	**781**

Guarantees on debt

LUKARCO, an investee recorded under the equity method of accounting has a loan facility on which $768 million was drawn as of December 31, 2004. Borrowings under this loan bear interest at LIBOR plus 2.5% and are partly payable by February 7, 2007 with the remaining outstanding balance repayable by May 1, 2012. To enhance the credit standing of LUKARCO, the Company guarantees 54% of the interest payment as well as the repayment of 54% of the loan at maturity. As of December 31, 2004, the total amount of the Company's guarantee was $485 million, which includes $70 million related to accrued interest on the outstanding amount. Payments are due if the Company is notified that LUKARCO is not able to fulfill its obligations at maturity date. No collateral secures LUKARCO's obligation or the Company's guarantee. As of December 31, 2004, it is not probable that the Company will be required to make payments under this guarantee, and, therefore, no liability has been accrued related to this guarantee arrangement.

Note 18. Financial guarantees (continued)

ZAO Sever-TEK, an investee recorded under the equity method of accounting obtained a loan from EBRD on June 28, 2002 of $200 million. As of December 31, 2004, ZAO Sever-TEK's amount outstanding under this loan was $175 million. Until June 30, 2005, borrowings under this loan bear interest at LIBOR plus 3%. After June 30, 2005 borrowings under this loan bear interest at LIBOR plus 4.5%. The loan is payable in eight equal semi-annual payments starting from December 14, 2004. To enhance the credit standing of ZAO Sever-TEK, the Company guarantees 50% of the interest payments as well as the principal amount of the loan at maturity. As of December 31, 2004, the total amount of the Company's guarantee is $88 million. Payments are due if the Company is notified that ZAO Sever-TEK is not able to fulfill its obligations at the maturity date. No collateral secures ZAO Sever-TEK's obligation. The guarantee is secured by the shares of ZAO Sever-TEK held by a Group company, the carrying amount of which was approximately $31 million as of December 31, 2004. As of December 31, 2004, it is not probable that the Company will be required to make payments under this guarantee, and, therefore, no liability has been accrued related to this guarantee arrangement.

ZAO LUKOIL-Neftegazstroy, an investee recorded under the equity method of accounting obtained a bank guarantee from HSBC Bank on December 5, 2003 in the amount of $45 million. This guarantee is required under the terms of a subcontractor's agreement in relation to the construction of the Group's oil and refined products cargo terminal in Vysotsk, Leningrad region. The Company has undertaken to indemnify HSBC Bank against any amounts required to be paid by HSBC Bank under its guarantee. As of December 31, 2004, the total amount of the Company's guarantee is $45 million. Payments are due if the Company is notified that ZAO LUKOIL-Neftegazstroy is not able to fulfill its obligations. No collateral secures ZAO LUKOIL-Neftegazstroy's obligation. As of December 31, 2004, it is not probable that the Company will be required to make payments under this guarantee, and, therefore, no liability has been accrued related to this guarantee arrangement.

Note 19. Commitments and contingencies

Capital expenditure, exploration and investment programs

The Group owns and operates a refinery in Bulgaria through its subsidiary LUKOIL Neftochim Bourgas AD. Bulgaria will join the European Union in 2007 as a result LUKOIL Neftochim Bourgas AD is required to upgrade its refining plant to comply with the requirements of European Union legislation in relation to the quality of produced petroleum products and environmental protection. These requirements are stricter than existing Bulgarian legislation. Management is currently assessing the amount of future capital commitment required to upgrade the refinery.

Under the terms of the purchase agreement, the Group is required to invest 85 million EUROs ($106 million using the year end exchange rate) into Beopetrol, the marketing and distribution company operating a chain of retail petrol stations in Serbia, within three years from the date of acquisition (Note 17 "Business combinations"). As of December 31, 2004 the Group's commitments under this agreement were $63 million.

Group companies have commitments under the terms of existing license agreements in the Russian Federation of $1,422 million over the next 5 years and of $117 million thereafter.

In connection with the sale of LUKOIL-Burenie (Note 10 "Dispositions and assets held for sale") the Group signed a five year contract for drilling services totaling $2,637 million. Under the terms of the contract, drilling services of $361 million, $378 million, $571 million, $661 million, and $666 million will be provided by LUKOIL-Burenie during 2005, 2006, 2007, 2008, and 2009, respectively.

Group companies have commitments for capital expenditure contributions in the amount of $525 million related to various production sharing agreements over the next 33 years.

(Millions of US dollars, except as indicated)

Note 19. Commitments and contingencies (continued)

Group companies have investment commitments relating to oil deposits in Iraq of $495 million to be spent within 3 years from when exploitation becomes possible. Due to significant changes in the political and economic situation in Iraq the future of this contract is not clear, however, the Group is actively pursuing its legal right to this contract in Iraq in alliance with ConocoPhillips (Note 20 "Related party transactions").

Operating lease obligations

A Group company has commitments of $887 million primarily for the lease of petroleum distribution outlets over the next 11 years. Commitments for minimum rentals under these leases as of December 31, 2004 are as follows:

	As of December 31, 2004
2005	109
2006	86
2007	84
2008	83
2009	83
beyond	442

Insurance

The insurance industry in the Russian Federation and certain other areas where the Group has operations is in the course of development. Many forms of insurance protection common in other parts of the world are not yet generally available. Management believes that the Group has adequate property damage coverage for the majority of its plant facilities including a refinery insurance program and hull and machinery insurance for the Group's operating marine vessels. In respect of third party liability for property and environmental damage arising from accidents on Group property or relating to Group operations, there is liability insurance in compliance with the local legal requirements, however the insurance limits required by law are generally low. The Group does not have insurance coverage for business interruption. Until Group companies are able to obtain adequate insurance coverage, there remains a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Environmental liabilities

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

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

Social assets

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

Note 19.Commitments and contingencies (continued)

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.

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.

Note 19.Commitments and contingencies (continued)

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.

Note 20. 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 3, 10, 11, 12, 14, 17, 18 and 23 for transactions with related parties.

Sales of oil and oil products to related parties were $153 million, $124 million and $148 million for the years ended December 31, 2004, 2003 and 2002, respectively.

Other sales to related parties were $63 million, $76 million and $74 million for the years ended December 31, 2004, 2003 and 2002, respectively.

Purchases of oil and oil products from related parties were $770 million, $270 million and $449 million for the years ended December 31, 2004, 2003 and 2002, respectively.

Purchases of construction services from related parties were $648 million, $451 million and $206 million for the years ended December 31, 2004, 2003 and 2002, respectively.

Other purchases from related parties were $71 million, $99 million and $64 million for the years ended December 31, 2004, 2003 and 2002, respectively.

Purchases of insurance services from related parties were $138 million, $200 million and $161 million during the years ended December 31, 2004, 2003 and 2002, respectively.

Amounts receivable from related parties, including loans and advances, were $225 million and $243 million as of December 31, 2004 and 2003, respectively. Amounts payable to related parties were $150 million and $128 million as of December 31, 2004 and 2003, respectively.

Note 20. Related party transactions (continued)

As of December 31, 2003 the Government of the Russian Federation owned 7.6% of the shares of the common stock of the Company. On September 29, 2004 ConocoPhillips was announced as the successful bidder in the Russian Government's auction of this 7.6% interest. The transaction closed in October 2004. In addition, the Company and ConocoPhillips formed a broad-based strategic alliance and announced their intention to create a joint venture to develop resources in the northern part of Russia's Timan-Pechora oil and gas province and jointly seek the right to develop the West Qurna oil field in Iraq.

The Russian Federation 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 21. 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. These rights vest in December 2006. In connection with the plan through December 31, 2004 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 $68 million as of December 31, 2004 and recorded $65 million of compensation expense during the year ended December 31, 2004. The Group also recorded compensation of $26 million during the year ended December 31, 2003 in relation to this and a previous existing plan that expired in 2003.

Note 22. Segment information

Presented below is information about the Group's operating and geographical segments for the years ended December 31, 2004, 2003 and 2002 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. The Group previously included the chemicals segment within the refining, marketing and distribution segment. 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.

(Millions of US dollars, except as indicated)

Note 22. Segment information (continued)

Operating segments

2004	**Exploration and production**	**Refining, marketing and distribution**	**Chemicals**	**Other**	**Elimination**	**Consolidated**
Sales						
Third parties	1,614	30,807	1,384	40	-	33,845
Inter-segment	8,379	822	13	103	(9,317)	-
Total sales	9,993	31,629	1,397	143	(9,317)	33,845
Operating expenses and total cost of purchases	2,610	18,469	1,119	89	(9,283)	13,004
Depreciation, depletion and amortization	676	377	8	14	-	1,075
Interest expense	76	272	2	93	(143)	300
Income tax expense	568	1,159	20	13	-	1,760
Net income	1,229	2,956	175	61	(173)	4,248
Total assets	19,203	20,720	532	3,205	(13,899)	29,761
Capital expenditures	2,289	1,070	71	17	-	3,447

2003	**Exploration and production**	**Refining, marketing and distribution**	**Chemicals**	**Other**	**Elimination**	**Consolidated**
Sales						
Third parties	1,580	19,542	963	33	-	22,118
Inter-segment	5,702	285	8	46	(6,041)	-
Total sales	7,282	19,827	971	79	(6,041)	22,118
Operating expenses and total cost of purchases	2,349	11,323	808	25	(6,050)	8,455
Depreciation, depletion and amortization	606	304	4	6	-	920
Interest expense	66	199	3	84	(79)	273
Income tax expense	381	605	11	10	-	1,007
Net income	1,995	1,573	72	99	(38)	3,701
Total assets	15,851	13,479	282	3,789	(6,827)	26,574
Capital expenditures	1,784	1,175	39	20	-	3,018

2002	**Exploration and production**	**Refining, marketing and distribution**	**Chemicals**	**Other**	**Elimination**	**Consolidated**
Sales						
Third parties	1,264	13,466	581	23	-	15,334
Inter-segment	3,897	175	4	101	(4,177)	-
Total sales	5,161	13,641	585	124	(4,177)	15,334
Operating expenses and total cost of purchases	1,916	6,784	510	63	(4,177)	5,096
Depreciation, depletion and amortization	602	219	2	1	-	824
Interest expense	157	153	2	42	(132)	222
Income tax expense	256	465	4	14	-	739
Net income	220	1,583	20	182	(162)	1,843
Total assets	13,005	10,560	162	4,147	(5,873)	22,001
Capital expenditures	1,411	706	12	75	-	2,204

(Millions of US dollars, except as indicated)

Note 22. Segment information (continued)

Geographical segments

	2004	2003	2002
Sales of crude oil within Russia	181	374	469
Export of crude oil and sales of crude oil by foreign subsidiaries	10,940	6,844	4,336
Sales of petroleum products within Russia	4,665	3,450	2,883
Export of petroleum products and sales of petroleum products by foreign subsidiaries	15,317	9,480	6,225
Sales of chemicals within Russia	332	251	134
Export of chemicals and sales of chemicals by foreign subsidiaries	1,021	671	392
Other sales within Russia	713	568	554
Other export sales and other sales of foreign subsidiaries	676	480	341
Total sales	33,845	22,118	15,334

2004	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	698	6,739	26,408	-	33,845
Inter-segment	4,780	12,081	20	(16,881)	-
Total sales	5,478	18,820	26,428	(16,881)	33,845
Operating expenses and total cost of purchases	1,457	6,334	22,045	(16,832)	13,004
Depletion, depreciation and amortization	366	533	176	-	1,075
Interest expense	33	234	92	(59)	300
Income taxes	236	1,351	173	-	1,760
Net income	611	3,340	633	(336)	4,248
Total assets	9,621	20,444	10,663	(10,967)	29,761
Capital expenditures	1,082	1,767	598	-	3,447

2003	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	512	5,346	16,260	-	22,118
Inter-segment	3,212	7,572	22	(10,806)	-
Total sales	3,724	12,918	16,282	(10,806)	22,118
Operating expenses and total cost of purchases	1,023	4,836	13,414	(10,818)	8,455
Depletion, depreciation and amortization	314	476	130	-	920
Interest expense	13	233	70	(43)	273
Income taxes	172	773	62	-	1,007
Net income	584	1,761	1,376	(20)	3,701
Total assets	6,721	15,912	7,247	(3,306)	26,574
Capital expenditures	543	1,953	522	-	3,018

(Millions of US dollars, except as indicated)

Note 22. Segment information (continued)

2002	Western Siberia	European Russia	International	Elimination	Consolidated
Sales					
Third parties	365	4,331	10,638	-	15,334
Inter-segment	2,078	6,350	67	(8,495)	-
Total sales	2,443	10,681	10,705	(8,495)	15,334
Operating expenses and total cost of purchases	979	3,967	8,644	(8,494)	5,096
Depletion, depreciation and amortization	335	367	122	-	824
Interest expense	28	162	42	(10)	222
Income taxes	177	571	(9)	-	739
Net (loss) income	(133)	1,802	310	(136)	1,843
Total assets	5,565	13,079	5,354	(1,997)	22,001
Capital expenditures	399	1,362	443	-	2,204

Note 23. Subsequent events

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%.

(Millions of US dollars, except as indicated)

This section provides unaudited supplemental information on oil and gas exploration and production activities in accordance with SFAS No. 69, *"Disclosures About Oil and Gas Producing Activities"* in six separate tables:

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

Amounts shown for equity companies represent the Group's share in its exploration and production affiliates, which are accounted for using the equity method of accounting.

I. Capitalized costs relating to oil and gas producing activities

As of December 31, 2004	International	Russia	Total consolidated companies	Group's share in equity companies	Total
Unproved oil and gas properties	202	666	868	23	891
Proved oil and gas properties	1,256	23,906	25,162	735	25,897
Accumulated depreciation, depletion, and amortization	(154)	(12,153)	(12,307)	(174)	(12,481)
Capitalized cost related to asset retirement obligation	1	70	71	1	72
Accumulated depreciation of capitalized cost related to asset retirement obligation	-	(7)	(7)	-	(7)
Net capitalized costs	1,305	12,482	13,787	585	14,372

As of December 31, 2003	International	Russia	Total consolidated companies	Group's share in equity companies	Total
Unproved oil and gas properties	127	508	635	23	658
Proved oil and gas properties	906	22,730	23,636	680	24,316
Accumulated depreciation, depletion, and amortization	(71)	(12,071)	(12,142)	(103)	(12,245)
Capitalized cost related to asset retirement obligation	2	36	38	1	39
Accumulated depreciation of capitalized cost related to asset retirement obligation	-	(5)	(5)	-	(5)
Net capitalized costs	964	11,198	12,162	601	12,763

As of December 31, 2002	International	Russia	Total consolidated companies	Group's share in equity companies	Total
Unproved oil and gas properties	-	310	310	41	351
Proved oil and gas properties	1,103	20,657	21,760	625	22,385
Accumulated depreciation, depletion, and amortization	(155)	(12,097)	(12,252)	(194)	(12,446)
Net capitalized costs	948	8,870	9,818	472	10,290

(Millions of US dollars, except as indicated)

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

Year ended December 31, 2004	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**	**Total**
Acquisition of properties - proved	224	16	240	-	240
Acquisition of properties - unproved	22	49	71	-	71
Exploration costs	81	225	306	3	309
Development costs	108	1,875	1,983	117	2,100
Total costs incurred	435	2,165	2,600	120	2,720

Year ended December 31, 2003	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**	**Total**
Acquisition of properties - proved	-	485	485	2	487
Acquisition of properties - unproved	2	311	313	1	314
Exploration costs	121	135	256	3	259
Development costs	128	1,400	1,528	249	1,777
Total costs incurred	251	2,331	2,582	255	2,837

Year ended December 31, 2002	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**	**Total**
Acquisition of properties - proved	-	24	24	-	24
Acquisition of properties - unproved	-	11	11	-	11
Exploration costs	15	74	89	3	92
Development costs	322	1,000	1,322	158	1,480
Total costs incurred	337	1,109	1,446	161	1,607

$21 million relating to the cumulative effect of the adoption of SFAS No.143 is excluded from costs incurred in 2003.

(Millions of US dollars, except as indicated)

III. Results of operations for oil and gas producing activities

The Group's results of operations for oil and gas producing activities are presented below. In accordance with SFAS No. 69, sales and transfers to Group companies are based on market prices. Income taxes are based on statutory rates for the year adjusted for applicable tax credits and allowances relating to oil and gas producing activities. The results of operations exclude corporate overhead and interest costs.

Year ended December 31, 2004	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**	**Total**
Revenue					
Sales	243	8,841	9,084	754	9,838
Transfers	-	4,456	4,456	47	4,503
Total revenues	243	13,297	13,540	801	14,341
Production costs (excluding production taxes)	(54)	(1,509)	(1,563)	(62)	(1,625)
Exploration expense	(40)	(131)	(171)	(5)	(176)
Depreciation, depletion, and amortization	(28)	(648)	(676)	(39)	(715)
Accretion expense	-	(8)	(8)	-	(8)
Taxes other than income taxes	(2)	(5,544)	(5,546)	(172)	(5,718)
Related income taxes	(3)	(1,310)	(1,313)	(315)	(1,628)
Total results of operations for producing activities	116	4,147	4,263	208	4,471

Year ended December 31, 2003	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**	**Total**
Revenue					
Sales	102	5,606	5,708	339	6,047
Transfers	3	2,638	2,641	28	2,669
Total revenues	105	8,244	8,349	367	8,716
Production costs (excluding production taxes)	(26)	(1,432)	(1,458)	(69)	(1,527)
Exploration expense	(15)	(121)	(136)	(4)	(140)
Depreciation, depletion, and amortization	(16)	(590)	(606)	(31)	(637)
Accretion expense	-	(11)	(11)	-	(11)
Taxes other than income taxes	-	(3,230)	(3,230)	(69)	(3,299)
Related income taxes	(8)	(686)	(694)	(53)	(747)
Total results of operations for producing activities	40	2,174	2,214	141	2,355

Year ended December 31, 2002	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**	**Total**
Revenue					
Sales	176	5,026	5,202	222	5,424
Transfers	5	2,847	2,852	124	2,976
Total revenues	181	7,873	8,054	346	8,400
Production costs (excluding production taxes)	(28)	(1,327)	(1,355)	(69)	(1,424)
Exploration expense	(15)	(74)	(89)	(3)	(92)
Depreciation, depletion, and amortization	(27)	(575)	(602)	(37)	(639)
Taxes other than income taxes	-	(2,196)	(2,196)	(56)	(2,252)
Related income taxes	(27)	(888)	(915)	(77)	(992)
Total results of operations for producing activities	84	2,813	2,897	104	3,001

IV. Reserve quantity information

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

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

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

Management has included within proved reserves quantities which the Group expects to produce after the expiry dates of its current production licenses. These licenses expire between 2011 and 2026, with the most significant expiring between 2011 and 2014. Management believes the licenses will be extended to produce subsequent to their current expiry dates. The Group is in the process of extending all of its production licenses in the Russian Federation. The Group has already extended a portion of these licenses and expects to extend the remaining licenses for indefinite periods. To date there have been no unsuccessful license renewal applications.

Estimated net proved oil and gas reserves and changes thereto for the years 2004, 2003 and 2002 are shown in the table set out below.

(Millions of US dollars, except as indicated)

Millions of barrels	**Consolidated subsidiaries**			**Group's share in equity companies**	**Total**
	International	Russia	Total		
Crude oil					
January 1, 2002	360	13,725	14,085	527	14,612
Revisions of previous estimates	(24)	835	811	62	873
Purchase of hydrocarbons in place	1	35	36	-	36
Extensions and discoveries	-	307	307	1	308
Production	(10)	(512)	(522)	(42)	(564)
Sales of reserves	-	(4)	(4)	(3)	(7)
December 31, 2002	327	14,386	14,713	545	15,258
Revisions of previous estimates	15	493	508	97	605
Purchase of hydrocarbons in place*	-	571	571	(206)	365
Extensions and discoveries	-	420	420	-	420
Production	(8)	(552)	(560)	(32)	(592)
Sales of reserves	(79)	-	(79)	-	(79)
December 31, 2003	255	15,318	15,573	404	15,977
Revisions of previous estimates	8	(63)	(55)	65	10
Purchase of hydrocarbons in place*	12	22	34	(1)	33
Extensions and discoveries	-	606	606	18	624
Production	(11)	(596)	(607)	(28)	(635)
Sales of reserves	-	(35)	(35)	(2)	(37)
December 31, 2004	**264**	**15,252**	**15,516**	**456**	**15,972**
Proved developed reserves					
December 31, 2002	107	9,041	9,148	359	9,507
December 31, 2003	143	9,792	9,935	272	10,207
December 31, 2004	**124**	**10,205**	**10,329**	**322**	**10,651**

* Purchase of hydrocarbons in place for equity companies includes transfers of reserves to the consolidated group upon those equity companies becoming subject to consolidation.

The minority interest share included in the above total proved reserves was 259 million barrels, 256 million barrels and 1,089 million barrels as of December 31, 2004, 2003 and 2002, respectively. The minority interest share included in the above proved developed reserves was 125 million barrels, 133 million barrels and 411 million barrels as of December 31, 2004, 2003 and 2002, respectively. All minority interests relate to the reserves in the Russian Federation.

(Millions of US dollars, except as indicated)

Billions of cubic feet	**Consolidated subsidiaries**			**Group's share in equity companies**	**Total**
	International	Russia	Total		
Natural gas					
January 1, 2002	1,668	11,261	12,929	281	13,210
Revisions of previous estimates	(44)	809	765	(53)	712
Purchase of hydrocarbons in place	-	4,967	4,967	-	4,967
Extensions and discoveries	-	5,401	5,401	-	5,401
Production	(43)	(76)	(119)	(7)	(126)
December 31, 2002	1,581	22,362	23,943	221	24,164
Revisions of previous estimates	602	(269)	333	13	346
Purchase of hydrocarbons in place*	-	98	98	(59)	39
Extensions and discoveries	-	57	57	-	57
Production	(28)	(96)	(124)	(9)	(133)
December 31, 2003	2,155	22,152	24,307	166	24,473
Revisions of previous estimates	(268)	(754)	(1,022)	55	(967)
Purchase of hydrocarbons in place	1,174	2	1,176	-	1,176
Extensions and discoveries	-	93	93	2	95
Production	(32)	(133)	(165)	(9)	(174)
Sales of reserves	-	(4)	(4)	(1)	(5)
December 31, 2004	**3,029**	**21,356**	**24,385**	**213**	**24,598**
Proved developed reserves:					
December 31, 2002	574	1,656	2,230	110	2,340
December 31, 2003	1,070	1,722	2,792	122	2,914
December 31, 2004	**1,363**	**3,420**	**4,783**	**175**	**4,958**

* Purchase of hydrocarbons in place for equity companies includes transfers of reserves to the consolidated group upon those equity companies becoming subject to consolidation.

The minority interest share included in the above total proved reserves was 20 billion cubic feet, 21 billion cubic feet and 5,621 billion cubic feet as of December 31, 2004, 2003 and 2002, respectively. The minority interest share included in the above proved developed reserves was 15 billion cubic feet, 16 billion cubic feet and 64 billion cubic feet as of December 31, 2004, 2003 and 2002, respectively. All minority interests relate to the reserves in the Russian Federation.

(Millions of US dollars, except as indicated)

V. Standardized measure of discounted future net cash flows

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

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

	International	Russia	Total consolidated companies	Group’s share in equity companies	Total
As of December 31, 2004					
Future cash inflows	8,290	290,189	298,479	9,630	308,109
Future production and development costs	(4,507)	(162,246)	(166,753)	(4,434)	(171,187)
Future income tax expenses	(537)	(29,268)	(29,805)	(1,276)	(31,081)
Future net cash flows	3,246	98,675	101,921	3,920	105,841
Discount for estimated timing of cash flows (10% p.a.)	(1,919)	(64,896)	(66,815)	(1,980)	(68,795)
Discounted future net cash flows	1,327	33,779	35,106	1,940	37,046
Minority share in discounted future net cash flows	-	531	531	-	531

Included as a part of the $171 billion of future development costs are $2 billion of future dismantlement, abandonment and rehabilitation costs.

(Millions of US dollars, except as indicated)

	International	Russia	Total consolidated companies	Group's share in equity companies	Total
As of December 31, 2003					
Future cash inflows	6,376	261,575	267,951	6,445	274,396
Future production and development costs	(3,476)	(149,526)	(153,002)	(3,117)	(156,119)
Future income tax expenses	(586)	(26,071)	(26,657)	(824)	(27,481)
Future net cash flows	2,314	85,978	88,292	2,504	90,796
Discount for estimated timing of cash flows (10% p.a.)	(1,392)	(55,642)	(57,034)	(1,389)	(58,423)
Discounted future net cash flows	922	30,336	31,258	1,115	32,373
Minority share in discounted future net cash flows	-	537	537	-	537

Included as a part of the $156 billion of future development costs are $2 billion of future dismantlement, abandonment and rehabilitation costs.

	International	Russia	Total consolidated companies	Group's share in equity companies	Total
As of December 31, 2002					
Future cash inflows	5,975	205,622	211,597	7,571	219,168
Future production and development costs	(2,117)	(123,967)	(126,084)	(3,686)	(129,770)
Future income tax expenses	(796)	(18,857)	(19,653)	(855)	(20,508)
Future net cash flows	3,062	62,798	65,860	3,030	68,890
Discount for estimated timing of cash flows (10% p.a.)	(1,674)	(42,104)	(43,778)	(1,665)	(45,443)
Discounted future net cash flows	1,388	20,694	22,082	1,365	23,447
Minority share in discounted future net cash flows	-	1,842	1,842	-	1,842

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

Consolidated companies	**2004**	**2003**	**2002**
Discounted present value as at January 1	31,258	22,082	17,440
Net changes due to purchases and sales of minerals in place	31	16	448
Sales and transfers of oil and gas produced, net of production costs	(6,260)	(3,525)	(4,414)
Net changes in prices and production costs estimates	5,881	8,978	4,687
Extensions, discoveries, and improved recovery, less related costs	1,548	1,049	521
Development costs incurred during the period	1,983	1,528	1,680
Revisions of previous quantity estimates	(416)	1,163	1,781
Net change in income taxes	(1,084)	(2,867)	(2,052)
Other changes	8	(115)	(334)
Accretion of discount	2,157	2,949	2,325
Discounted present value at December 31	**35,106**	**31,258**	**22,082**

(Millions of US dollars, except as indicated)

Group's share in equity companies	**2004**	**2003**	**2002**
Discounted present value as at January 1	1,115	1,365	1,045
Net changes due to purchases and sales of minerals in place	(20)	(457)	(2)
Sales and transfers of oil and gas produced, net of production costs	(562)	(225)	(218)
Net changes in prices and production costs estimates	787	158	290
Extensions, discoveries, and improved recovery, less related costs	64	-	-
Development costs incurred during the period	117	127	69
Revisions of previous quantity estimates	388	218	162
Net change in income taxes	(224)	(121)	(121)
Other changes	143	(67)	15
Accretion of discount	132	117	125
Discounted present value at December 31	**1,940**	**1,115**	**1,365**

Total	**2004**	**2003**	**2002**
Discounted present value as at January 1	32,373	23,447	18,485
Net changes due to purchases and sales of minerals in place	11	(441)	446
Sales and transfers of oil and gas produced, net of production costs	(6,822)	(3,750)	(4,632)
Net changes in prices and production costs estimates	6,668	9,136	4,977
Extensions, discoveries, and improved recovery, less related costs	1,612	1,049	521
Development costs incurred during the period	2,100	1,655	1,749
Revisions of previous quantity estimates	(28)	1,381	1,943
Net change in income taxes	(1,308)	(2,988)	(2,173)
Other changes	151	(182)	(319)
Accretion of discount	2,289	3,066	2,450
Discounted present value at December 31	**37,046**	**32,373**	**23,447**