PRESS RELEASE
AUGUST 11, 2000

PRESS STATEMENT

On August 3, 2000 Moscow arbitration court ruled that the tax agency's decision to arraign LUKOIL for tax evasion was illegal.

As a result of the tax inspection, which covered 3 years of the Company's performance, the tax agency decided to arraign LUKOIL for tax infringement. The size of taxes, penalties and financial sanctions accrued as a result of the tax inspection amounted to RUB751m.

The bulk of taxes and sanctions were accrued in relation to the Company's participation in subsiding of the dwelling stock of Moscow and charitable activities.

Other charges reflected in the tax inspection statement cannot be considered material. Basically, they result from an artificial differentiation of reporting procedures for the purposes of accounting and taxation as it is stipulated by the existing tax legislation.

A law suit filed by the Company in Moscow arbitration court on July 4, 2000 contained 16 claims.

The court hearing, which took place on August 3, 2000, lasted 5 hours. 14 representatives of the tax agencies and the tax police attended the hearing. The court dismissed 15 out of 16 charges from LUKOIL.

The only charge that could not be dismissed does not relate to tax evasion or partial tax evasion. The burden of this charge is the absence of statutory legal procedure for VAT reimbursement by the budget in case when the revenues from sales are not subject to VAT.

Thus, the Company purchased Iraqi crude oil under the international Oil-for-Food program and without bringing it to the customs territory of Russia sold it to a foreign legal entity. The tax agencies deem that in this case the VAT paid to the Russian supplier is to be included in the production cost and shall not be reimbursed by the budget. But this can be considered as a disputed accounting document.

The court hearing did not reveal any cases of tax evasion by the Company.

Press Centre PJSC "LUKOIL"
Phone:
E-mail: media@lukoil.com

LUKOIL hopes that the arbitration court judgement will be immediately satisfied. As of today, the tax agencies have not yet satisfied 4 rulings made by the court over the last year in favor of the Company.

LUKOIL press office officially states that LUKOIL acts strictly within the frames of the existing Russian legislation.