AO SIBERIAN OIL COMPANY

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2001 AND 2000
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS REPORT

To the Shareholders of AO Siberian Oil Company:

We have audited the accompanying consolidated balance sheets of AO Siberian Oil Company, a Russian open joint stock company, and subsidiaries ("the Company") as of December 31, 2001 and 2000, and the related consolidated income statements, changes in shareholders' capital and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. 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 financial statements referred to above present fairly, in all material respects, the financial position of the Company and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Moscow, Russia
June 21, 2002

AO Siberian Oil Company

Consolidated Income Statements

For the Years Ended December 31, 2001 and 2000

(Thousands of US Dollars)

	Notes	2001	2000
Revenues			
Refined products and oil and gas sales		$ 3 449 145	$ 2 344 453
Other		126 534	53 469
Total		3 575 679	2 397 922
Costs and other deductions			
Operating expenses		702 292	905 924
Selling, general and administrative expenses		608 965	182 160
Cost of other sales		101 818	23 901
Depreciation, depletion and amortization		313 916	300 000
Exploratory expenses		21 220	4 779
Taxes other than income taxes		422 231	253 741
Total		2 170 442	1 670 505
Operating income		1 405 237	727 417
Other income / (expense)			
Interest received and other income		731	990
Interest paid and other expense		(47 943)	(11 364)
Other non-operating income	7	128 764	-
Other non-operating expense, net		(81 566)	(35 103)
Minority interest		(729)	61 549
Currency translation gain		34 902	9 721
Total		34 159	25 793
Income before provision for income taxes		1 439 396	753 210
Provision for income taxes	18	134 122	78 365
Net income		$ 1 305 274	$ 674 845
Net income per common share (dollars)		$ 0,3217	$ 0,2084
Average number of common shares outstanding (millions)		4 057	3 238

AO Siberian Oil Company

Consolidated Balance Sheets

As of December 31, 2001 and 2000

(Thousands of US Dollars)

	Notes	2001	2000
Assets			
Current assets:			
Cash and cash equivalents	3	$ 51 649	$ 27 086
Loans receivable	4	299 276	7 988
Accounts receivable, net (less allowance of doubtful accounts of $46,409 and $33,750, respectively)	5	765 794	448 695
Inventories, net	6	232 876	169 117
Prepaid expenses		4 581	14 825
Total current assets		1 354 176	667 711
Long-term investments	7	930 889	533 556
Oil and gas properties, net	8	2 847 840	2 719 285
Property, plant and equipment, net	9	393 330	472 339
Construction in progress	10	181 711	170 753
Other noncurrent assets		4 850	8 925
Total assets		$ 5 712 796	$ 4 572 569
Liabilities and shareholders' capital			
Current liabilities:			
Short-term loans	11	$ 314 864	$ 405 025
Accounts payable and accrued liabilities	12	294 562	382 928
Income and other taxes	13	140 661	39 298
Other current liabilities		45 092	14 454
Total current liabilities		795 179	841 705
Dividends payable		194 584	50 683
Site restoration costs	14	76 283	66 194
Long-term debt	15	608 333	187 528
Minority interest		1 682	256 734
Total liabilities		1 676 061	1 402 844
Shareholders' capital:			
Common stock (authorized and issued: 4,741,299,639 shares, 0.0016 ruble par value)	16	1 619	1 619
Additional paid -in capital		858 987	845 498
Treasury stock		-	(541 713)
Reserves		1 867 449	1 867 449
Retained earnings		1 308 680	996 872
Total shareholders' capital		4 036 735	3 169 725
Total liabilities and shareholders' capital		$ 5 712 796	$ 4 572 569

For the years ended December 31, 2000 and 2001
(Thousands of US Dollars)

	2001	2000
Operating activities		
Reconciliation of net income to net cash provided by operating activities:		
Net income	$ 1 305 274	$ 674 845
Depreciation, depletion and amortization	313 916	300 000
Interest expense on Runicom loan	20 628	-
Loss on disposal of property, plant and equipment	(554)	1 654
(Gain)/loss on sales of investments	(5 802)	7 029
(Decrease)/increase in long term taxes payable	-	(16 075)
Minority interest	729	(61 549)
Changes in current assets and liabilities:		
(Increase) in accounts receivable	(329 758)	(122 401)
Increase in provision for doubtful accounts	12 659	111
(Increase) in inventories	(63 759)	(45 448)
(Increase)/decrease in prepaid expenses	10 245	(13 264)
(Increase) in other noncurrent assets	4 075	(1 571)
Increase/(decrease) in accounts payable and accrued liabilities	(88 366)	205 780
Increase/(decrease) in income and other taxes	101 363	(10 655)
Increase in other current liabilities	30 638	2 013
Net cash provided by operating activities	1 311 288	920 469
Investing activities		
Investments made	(726 107)	(543 745)
Acquisition of shares in subsidiaries	(10 179)	(17 160)
Proceeds from investments sales	52 388	9 154
Proceeds from disposals of property, plant and equipment	237	34 473
Capital expenditures	(618 717)	(230 935)
Net cash used in investing activities	(1 302 378)	(748 213)
Financing activities		
Net increase/(decrease) in short-term loans	(90 161)	343 284
Net increase in long-term debt	383 599	37 528
Dividends paid	(849 565)	-
Treasury stock sales/(purchases)	571 780	(541 713)
Net cash used in financing activities	15 653	(160 901)
Increase in cash and equivalents	24 563	11 355
Cash and equivalents at beginning of year	27 086	15 731
Cash and equivalents at end of year	$ 51 649	$ 27 086
Supplemental disclosures of cashflow information		
Cash paid for interest	$ 31 565	$ 26 130
Cash paid for income taxes	$ 107 679	$ 73 983

AO Siberian Oil Company
Statement of Changes in Shareholders' Capital
For the Years Ended December 31, 2000 and 2001
(Thousands of US Dollars)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Reserves	Retained Earnings
Balance at December 31, 1999	$ 1 619	$ 808 292	$ -	$ 1 867 449	$ 372 610
Treasury stock purchase			$ (541 713)		
Net income for the year					$ 674 845
Benefit from Runicom loan		$ 37 206			
Common stock dividends					$ (50 583)
Balance at December 31, 2000	$ 1 619	$ 845 498	$ (541 713)	$ 1 867 449	$ 996 872
Treasury stock sales		$ 30 067	$ 541 713		
Net income for the year					$ 1 305 274
Early repayment of Runicom loan		$ (16 578)			
Common stock dividends					$ (993 466)
Balance at December 31, 2001	$ 1 619	$ 858 987	$ -	$ 1 867 449	$ 1 308 680

1. General

Description of Business

AO Siberian Oil Company (the "Company" or "Sibneft") is a vertically integrated Russian oil company. Its principal activities concern oil and gas exploration, production, refining and marketing.

The Company was created by Presidential Decree Number 872 dated August 24, 1995. On September 29, 1995 Sibneft's charter was approved when the Government of the Russian Federation issued Resolution Number 972. The Omsk Registration Chamber officially registered Sibneft on October 6, 1995.

Under the terms of the Presidential Decree, Sibneft received 51 percent of the voting common shares (38 percent of the charter capital) belonging to the Russian Federation in four companies: Noyabrskneftegaz ("Noyabrsk"), Omsk Refinery ("OR"), Noyabrskneftegasgeophysica ("Geofizika") and Omsknefteprodukt ("Nefteprodukt").

Noyabrsk is primarily engaged in the exploration, production and development of oil and gas from its fields in the south Yamalo-Nentsk autonomous region and the northern part of the Khanti-Mansisk autonomous region. OR's principal activity is the production of refined petroleum products at its refinery in Omsk, Western Siberia. Nefteprodukt carries out marketing operations through its retail outlets in the Omsk region. Geofizika provides exploration and technical services in the Noyabrsk region. Since 2001, all export trade has been consolidated through a wholly owned subsidiary, Siboil.

Economic Conditions in Russia

Over the past decade Russia has undergone substantial political, economic and social changes. As an emerging market, Russia does not possess a fully developed business and regulatory infrastructure that would generally exist in a more mature market economy. The current Government is attempting to address these issues; however, it has not yet fully implemented the reforms necessary to create banking, judicial and regulatory systems that usually exist in more developed markets. As a result, and as reflected in the Government's debt default and Ruble devaluation in 1998, operations in Russia involve risks that are not typically associated with those in developed markets. Such risks persist in the current environment with results that include but are not limited to, a currency that is not freely convertible outside of the country, various currency controls, low liquidity levels for debt and equity markets, and continuing inflation.

Currency Exchange and Control

Foreign currencies, in particular the US dollar ("US$"), play a significant role in the underlying economics of many business transactions in Russia. Following the 1998 economic crisis, the Ruble's value fell significantly against the US$, falling from a pre-crisis rate of approximately 6 Rubles to 1 US $, to 27 Rubles to 1 US$ by the end of 1999. During 2000 and 2001, the Ruble's value fluctuated between 26.9 and 30.3 to 1 US$. As of June 21, 2002, the exchange rate was 31.44 Rubles to 1 US$.

The Central Bank of Russia has established strict currency control regulations designed to promote the commercial utilization of the Ruble. Such regulations place restrictions on the conversion of Rubles into foreign currencies and establish requirements for conversion of foreign currency sales to Rubles.

Inflation

The Russian economy has been characterized by relatively high rates of inflation. The following table summarizes the annual rate of inflation for the past three years:

Year	Annual inflation
2001	18.6%
2000	20.2%
1999	36.5%

2. Summary of Significant Accounting Policies

Form and Content of the Consolidated Financial Statements

The Company and its subsidiaries maintain their books and records in accordance with accounting principles and practices mandated by Russian Accounting Regulations ("RAR"). These regulations are principally structured for the preparation of information for taxation reporting. Accordingly, tax considerations embodied within the regulations result in significant departures from generally accepted accounting principles in the United States ("US GAAP").

The financial statements presented herein have been reformatted for international presentation from the Russian statutory financial statements of the Company and its subsidiaries for the years ended December 31, 2001 and 2000 and adjusted to comply with US GAAP. All significant intercompany transactions have been eliminated in the preparation of these financial statements.

Principles of Consolidation

The consolidated financial statements include the operations of all significantly controlled subsidiaries in which Sibneft directly or indirectly owns or has the right to acquire for an insignificant amount more than 50 percent of the voting stock, from the date on which control was acquired.

Investments

Investments in which the Company has voting interest between 20 and 50%, or otherwise exerts significant influence on, are accounted using the equity method. As further discussed in Note 7, the Company has interests in various Russian legal entities, which are accounted for using the cost method.

An assessment of impairment is done annually, or whenever events or circumstances indicate that the investment may be impaired, and a provision is made, if required, to recognize a decline other than temporary in the value of the investments. An impairment loss creates a new cost basis and reversal is prohibited.

Common Stock

The Presidential Decree establishing Sibneft stated that the charter capital of the Company would be equal to 38 percent of the aggregate of the charter capitals of its four subsidiaries at the date of formation. The 38 percent of the aggregate of the Charter capitals of the four subsidiaries also gave Sibneft 51 percent of the voting common stock in each of the subsidiaries and represented the Government's ownership in these companies. This consolidation of the Government's ownership into one company established the share capital of Sibneft at 4,516,396,250 shares of 0.0016 rubles each. For the purposes of these financial statements, the ruble value of the shares has been translated into US$ at the historical exchange rate.

Reserves and Retained Earnings

Reserves represent the Company's net asset position, excluding common stock at the time of the Company's formation in 1995. Retained earnings represent all cumulative net profit subsequent to formation.

Management 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 in the balance sheet as well as the revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Foreign Currency Translation

Translation (remeasurement) of the Company's ruble denominated financial statements into US$ has been performed in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation", as they relate to highly inflationary economies. The objective of this remeasurement process is to produce the same results that would have been reported if the accounting records had been kept in US$.

Monetary assets and liabilities have been translated at the rate prevailing at each balance sheet date. Non-monetary assets (other than oil and gas properties and property, plant and equipment - see "Property, Plant and Equipment" below) and liabilities have been translated at historical rates. Revenues, expenses and cash flows have been translated at annual average rates. Translation differences resulting from the use of these rates have been accounted for as currency translation gains in the accompanying consolidated income statements.

The Company's principal future operating cash flows (revenues, production costs and general and administrative expenses) will be generated in rubles. As a result, future movements in the exchange rate between the ruble and the US$ will affect the carrying value of the Company's monetary assets and liabilities. Such changes may also affect the Company's ability to realize non-monetary assets as represented in terms of US$ in the accompanying financial statements.

Cash and Cash Equivalents

Cash represents cash on hand and in the Company's bank accounts and cash equivalents represent letters of credit with an original maturity of three months or less.

Inventories

Inventories, consisting primarily of crude oil, petroleum products and materials and supplies, are stated at the lower of weighted average cost or market.

Oil and Gas Properties

Sibneft follows the successful efforts method of accounting for its oil and gas exploration and production activities.

Lease acquisition costs related to properties held for oil and gas production are capitalized when incurred. Unproved properties with acquisition costs, which are individually significant, are assessed on a property-by-property basis, and a loss is recognized, by provision of a valuation allowance, when the assessment indicates impairment in value.

Exploratory costs, excluding the costs of exploratory wells, are charged to expenses as incurred. Costs of drilling exploratory wells, including stratigraphic test wells, are capitalized pending determination whether such wells have found proved reserves, which justify commercial development. If such reserves are not found, the drilling costs are charged to exploratory expenses. Intangible drilling costs applicable to productive wells and to development dry holes, as well as tangible equipment costs and costs of injection wells related to development of oil and gas reserves are capitalized.

The recoverability of oil and gas properties is assessed whenever events or circumstances indicate a potential impairment. In such circumstances the Company assesses the carrying value of oil and gas properties against management's' best estimates of the undiscounted net future pre-tax cash flows. For oil and gas properties, the test is performed on a field-by-field basis. Where an assessment indicates impairment in value, the oil and gas properties are written down to their fair value, as determined by the projection of discounted net future pre-tax cash flows. Oil and gas reserves for this purpose have been determined in accordance with the Society of Petroleum Engineers of the United States' definitions and were independently estimated by Miller and Lents, Ltd. As a result of this evaluation, no writedown was required for the years ended December 31, 2001 or 2000.

Depreciation and depletion of capitalized costs of proved oil and gas properties is calculated using the unit-of-production method for each field based upon proved developed reserves. Estimated costs of dismantling oil and gas production facilities, including abandonment and site restoration costs, are reserved using the unit-of-production method and included as a component of depreciation, depletion and amortization.

Russian financial information is maintained in historic ruble terms. However, the US$ historic cost of oil and gas properties in the accompanying consolidated balance sheets were obtained using the same methodology applied to property, plant and equipment, as discussed below in "Property, Plant and Equipment".

Property, Plant and Equipment

As discussed above, Russian financial information is maintained in historic ruble terms. In years prior to 1992, exchange rates were fixed by the government and did not necessarily correspond to the real market value of the ruble. In addition, certain purchases were made through central purchasing authorities and values transferred to receiving organizations were determined by the government. During 1992, fixed assets were revalued in accordance with Government Decree Number 595 dated August 14, 1992. Similar revaluations took place as of January 1, 1994, January 1, 1997 and January 1, 1998. Indexes used for these revaluations did not necessarily reflect the changes in the ruble's value, nor did they result in the value of the underlying fixed assets to which they were applied being revalued to a current market value.

As a result, it was not possible to determine from the statutory accounting records an appropriate carrying value of property, plant and equipment for US GAAP reporting purposes. Accordingly, an independent appraisal company, American Appraisal (AAR) Inc., was engaged to perform an historic cost valuation of property, plant and equipment, together with related accumulated depreciation as of December 31, 1996.

In performing a valuation of property, plant and equipment, the independent appraisal company employed appraisal techniques to determine both the historic cost and fair market value (in-use) for the appraised property in US$ terms. The first step in estimating the historic cost and fair market value of the fixed assets entailed estimating the cost new, which is either cost of reproduction new ("CRN") or, where CRN data was not available due to technical and/or design changes, the cost of replacement ("COR"). The CRN reflects the cost to reproduce the existing property in like kind while the COR reflects the cost to replace the existing property using current technology and materials. Cost data from both Russian and foreign producers of equipment was taken into account.

To arrive at an appropriate estimate of original historic cost, the CRN/COR was back-trended according to the actual age of the asset using historic western inflation adjustments. The historic cost of the assets was then depreciated using estimates of economic useful lives as outlined in "Depreciation, Depletion and Amortization" below.

The results of this work were used to determine the carrying values of property, plant and equipment for US GAAP purposes as of December 31, 1996. Since that date, disposals of property, plant and equipment have been accounted for at their historic cost while additions to property, plant and equipment have been recorded at cost using exchange rates as of the transaction dates.

The recoverability of property, plant and equipment is assessed whenever events or circumstances indicate a potential impairment. This assessment involves comparing of carrying value of the assets with management's best estimate of the future undiscounted cash flows to be generated by using the assets. Where this calculation indicates an impairment the asset is written down to its fair value, which is estimated based on management's best estimate of future discounted cash flows.

The cost of maintenance, repairs, and replacement of minor items of property is charged to operating expense. Renewals and betterments of assets are capitalized. Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are included in the determination of net income.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization of oil and gas properties are provided on the unit-of-production method based on the ratio of current year production to total estimated future production from proved developed reserves.

The provision for depreciation and amortization with respect to operations other than oil and gas producing activities is computed using the straight-line method based on estimated economic lives. Composite depreciation rates are applied to similar types of buildings and equipment having similar economic characteristics, as shown below:

Asset Group	Average Life
Buildings and land improvements	15-25 years
Machinery and Equipment (including refinery assets)	20-30 years
Vehicles and other	3-10 years

Refinery Shutdown Costs

Major maintenance costs that extend the useful life of the refinery are capitalized and depreciated over its life while periodic maintenance costs are expensed when incurred.

Capitalized Interest

Interest is capitalized on expenditures made in connection with capital projects (exclusive of oil and gas properties) that, theoretically, could have been avoided if expenditures for the assets had not been made. Interest is only capitalized for the period that activities are in progress to bring these projects to their intended use. During 2001 and 2000, interest related to the capital projects was capitalized amounting to US$ 19 million and US$ 20 million respectively.

Minority Interest in Subsidiary Companies

Minority interest in the consolidated balance sheets reflects minority owners' percent share of shareholders' capital in subsidiaries. The minority interest is calculated based on the shareholders' equity of each subsidiary as determined under US GAAP. Significant minority owners' interest in the Company's subsidiaries, is as follows:

	December 31, 2001		December 31, 2000	
	Voting	Total	Voting	Total
Noyabrsk	-	-	3%	3%
OR	-	-	13%	13%
Geofizika	19%	19%	19%	19%
Nefteprodukt	-	-	6%	6%
Omsky Bacon	-	-	46%	46%

The reduction in minority interest percentages during 2000 and 2001 resulted from the Company's acquisition of additional shares in subsidiaries (see Note 7) accounted for using the purchase method.

Income Taxes

The Company is not subject to taxation on a consolidated basis. Current income taxes are provided on the accounting profit as determined under RAR at a rate of 35% and 30% percent, for the years ended December 31, 2001 and 2000, respectively, after adjustments for certain items which are not deductible for taxation purposes, and after consideration of different tax credits.

The accompanying consolidated financial statements reflect deferred income taxes of the Company and its subsidiaries using the asset and liability method, which requires that deferred tax assets and liabilities be recorded for the expected future tax consequences of existing differences between financial reporting and tax reporting bases of assets and liabilities, and loss or tax credit carryforwards (see Note 18). Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

Comprehensive Income

SFAS 130, "Reporting Comprehensive Income,"defines standards for the reporting and display of comprehensive income (net income plus all other changes in net assets from non-owner sources) and its components in financial statements. For the years ended December 31, 2001 and 2000, comprehensive income equaled net income.

Earnings per Share

Basic and diluted earnings per common share have been determined by dividing the available income to common shareholders by the weighted average number of shares outstanding during the year. Treasury shares are not considered to be outstanding for the purpose of such determination. There are no potentially dilutive securities.

Fair value of Financial Instruments

The carrying amount of all significant financial instruments approximates fair value. SFAS 107, "Disclosure about Fair Value of Financial Instruments," defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

As discussed in Note 7, the Company has investments in certain Russian companies. There are no quoted market prices for these instruments and a precise estimate of fair value could not be made without incurring excessive costs.

Accounting for Contingencies

Certain conditions may exist as of the date these financial statements are issued, which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company's management and legal counsel assess such contingent liabilities. The assessment of loss contingencies necessarily involves an exercise of judgment and is a matter of opinion. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the 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 would be accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency 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 if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed. However, in some instances in which disclosure is not otherwise required, the Company may disclose contingent liabilities of an unusual nature which, in the judgment of management and its legal counsel, may be of interest to shareholders or others.

Revenue

Revenues from refined products and oil and gas sales are recognised when legal title passes to the customer.

Other revenues consist primarily of sales of equipment, maintenance services and utilities, and are recognised when goods and services and are provided to customers.

Revenues are stated net of taxes but include any shipping and handling costs that are expensed as incurred, and are generally not invoiced to customers.

Retirement and Other Benefit Obligations

The Company and its subsidiaries do not have any substantial pension arrangements separate from the State pension scheme of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such contributions are charged to expense as incurred. In addition, the Company has no post-retirement benefits or significant other compensated benefits requiring accrual.

New Accounting Standards

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS 133, as amended by SFAS 137 and 138, establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. These rules require that changes in the derivative instrument's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. The adoption of SFAS 133 had no significant effect on the Company's accounting or disclosures for the type of transactions in the scope of the new standard.

In September 2000, the FASB issued SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" – a replacement of SFAS 125. SFAS 140 is effective for transfers occurring after March 31, 2001, and for disclosures relating to securitisation transactions and collateral for fiscal years ending after December 15, 2000. The adoption of SFAS 140 had no significant effect on the Company's accounting or disclosures for the type of transactions in the scope of the new standard.

New Accounting Standards yet to be Adopted

In June 2001, SFAS 141, "Business Combinations", SFAS 142, "Goodwill and Other Intangible Assets" and SFAS 143, "Accounting for Asset Retirement Obligations" were issued. SFAS 141 is effective for all business combination initiated after June 30, 2001, and for all business combinations accounted for using the purchase method of which the date of acquisition is July 1, 2001, or later. SFAS 142 is effective for fiscal years beginning after December 15, 2001 except for goodwill and intangible assets acquired after June 30, 2001,which were immediately subject to the amortization and non-amortization provision of the SFAS 142. The adoption of SFAS 142 and SFAS 141 is not expected to have significant impact on the Company's financial statements.

SFAS 143 is required to be adopted by the Company no later than January 1, 2003 and its primary impact will be to change the method of recognizing upstream site restoration costs. These costs are currently accrued ratably over the productive lives of the assets. At December 31, 2001 the cumulative amount accrued under this policy was approximately US$ 76 million. Under SFAS 143, the fair value of the asset retirement obligation will be recorded as liabilities when they arise, which are typically at the time the assets are installed. The amount recorded for the related assets will be increased by the amount of these obligations. Over time liabilities will be adjusted for the change in their present value and the initial capitalized costs will be depreciated over the useful life of the related assets.

In August 2001, SFAS 144, "Accounting for the Impairment or Disposal of Long-Live Assets", was issued. SFAS 144 establishes a single accounting model for long-lived assets to be disposed of by sale consistent with the fundamental provisions of SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". While it supersedes portions of APB Opinion 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", it retains the discontinued operations presentation, yet it broadens that presentation to include a component of an entity (rather than a segment of a business). However, discontinued operations are no longer recorded at net realizable value and future operating losses are no longer recognized before they occur. SFAS 144 also establishes criteria for determining when an asset should be treated as held for sale. SFAS 144 is effective for fiscal years beginning after December 15, 2001, with initial application effective as of the beginning of the fiscal year adopted. The Company does not believe there will be any significant impact of adopting SFAS 144 to its financial position or result of operations.

In April 2002, the FASB issued SFAS 145 "Rescission of FASB Statements 4, 44 and 64, Amendment of FASB Statement .13 and Technical Corrections." The principal change is that gains or losses from extinguishment of debt which are classified as extraordinary items by SFAS 4 will no longer be classified as such. The provisions of SFAS 145 are effective for fiscal years beginning after May 15, 2002 although early application of the Statement related to the rescission of SFAS 4 is encouraged. The Company plans to adopt SFAS 145 for its fiscal year ending December 31, 2003. When adopted, prior extraordinary items related to the extinguishment of debt will need to be reclassified.

3. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, comprise the following (in US$ thousands):

	2001	2000
Cash in bank – rubles	11,961	6,731
Cash in bank – foreign currency	23,153	12,767
Restricted cash	16,510	7,546
Cash on hand	25	42
Total cash and cash equivalents	51,649	27,086

Restricted cash represents for the most part letters of credit opened for import contracts with foreign vendors.

4. Loans Receivable

The Company provided ruble loans to third parties with the maturity of one month to one year and bearing interest ranging from nil to 17 % per year.

The fair values of loans provided are approximately equal to their carrying value in the consolidated financial statements.

5. Accounts Receivable

The composition of accounts receivable is as follows as of December 31, (in US$ thousands):

	2001	2000
Trade receivables	508,174	298,505
Advances paid to suppliers	179,626	79,877
Value added tax receivable	88,514	57,242
Other	35,889	46,821
Less allowance for doubtful accounts	(46,409)	(33,750)
Total accounts receivable	765,794	448,695

Trade receivables are represented by amounts due from regular customers in an ordinary course of business and are short-term in nature.

Management has provided a specific allowance on amounts due from commercial and industrial customers principally based on the overall delinquency in customer payments. The Company's trade receivables are denominated primarily in rubles and are short-term in nature. However, in US$ terms, due to significant delays in collection, the Company is subject to the economic risk of currency movements between the time of billing and the receipt of payment.

6. Inventories

The following are the major components of inventory as of December 31, (in US$ thousands):

	2001	2000
Crude oil	22,051	13,365
Petroleum products	27,577	33,336
Materials and supplies	147,619	88,905
Other	35,629	33,511
Total inventories	232,876	169,117

7. Long-Term Investments

None of the companies listed below are publicly traded in the Russia and due to the nature of the financial markets it is not possible to obtain a current market price for these investments, however, management believes that the costs of these investments approximate their fair values. The significant equity and other long-term investments are summarized below as of December 31, 2001 and 2000 (in US$ thousands):

Name	2001	2000
Investments in Russian companies		
- Oil and gas producing	444,886	490,343
- Refining	254,206	-
- Marketing	71,719	34,745
- Investment trust	76,347	-
- Other	9,069	-
Other long-term investments	74,662	8,468
Total long-term investments	930,889	533,556

Included in oil and gas producing associated companies as of December 31, 2001 is a 26% (2000 - 30%) interest in the common stock and a 12% (2000 -12%) interest in the preferred stock of Orenburgneft and a 3% (2000 - 1%) interest in the common stock of ONAKO. The total costs for these investments are US$ 430 million and US$ 476 million, as of December 31, 2001 and 2000, respectively. Orenburgneft is a consolidated subsidiary of ONAKO. The initial interests were acquired in December 2000. In December 2001, the Company sold a 4.2% interest in the common stock of Orenburgneft for US$ 52 million resulting in US$ 6 million gain. The Company exercises significant influence by controlling three out of nine positions on the board of directors on ONAKO. The Company's equity share in earnings of these investments for 2001 was not significant. The carrying values of the investments in ONAKO and Orenburgneft are equal to the Company's share of net assets in those companies. For tax optimization purposes, a joint venture that for 2001 was the beneficiary of earnings related to Orenburgneft oil production is 33% owned by an entity controlled by the Company's management, which acts as an agent for the Company in distributing the earnings to the Company. During 2001, the joint venture earned US$ 370 million, of which US$ 122 million was attributable to the Company and is reflected in other non-operating income.

Investments in refining companies consists of a 37% interest in Moskovsky Neftepererabativaushiy Zavod (MNPZ) acquired during November 2001, for US$ 254 million. US GAAP financial information is not currently available for MNPZ and hence it has not been possible for management to determine the difference between the carrying value of the investment in MNPZ and the Company's share of net assets. Any difference between such amounts would not be amortized in accordance with SFAS 141.

Management have concluded that the Company's share of MNPZ's earnings since acquisition to December 31, 2001, is not material.

Investments in marketing companies include various wholesale and retail distribution companies, none of which are individually material.

In November 2001, the Company entered into an agreement with three unrelated parties to form a trust to participate in various investments in an oil company and its subsidiaries. Each party including the Company contributed US$ 76 million for a 25% share in the trust. The trust accounts for the investments at cost due to inability of the trust's participants to exert influence over the oil company and subsidiaries, even in cases where ownership in certain subsidiaries exceeds 20%. The Company accounts for its 25% share of trust using the equity method.

During 2001, the Company advanced US$ 68 million to a 50%-owned investee, which, in the understanding of management, was used to fund half of the purchase price of what amounts to a 30% share interest in a major Russian utility company. The Company intends to convert the advance into equity during 2002. This advance is reflected in "Other long-term investment" in the above table.

Acquisition of Additional Shares in Subsidiaries

During 2000, Sibneft extended its ownership in other subsidiaries through a series of purchase transactions of additional shares in Noyabrsk, Geofizika, OR, Nefteprodukt for the total of US$ 15 million paid in cash. For consolidation purposes these acquisitions resulted in a negative goodwill of US$ 388 million, which has been allocated against oil and gas properties and property, plant and equipment.

In March 2001, Noyabrsk, OR, and Nefteproduct registered prospectuses for share emissions with a significant increase of the nominal value of shares without any change to the monetary amount of the charter capital. The purpose of these emissions was to convert old shares of each subsidiary to the new shares with a higher nominal value. In April 2001, during the exchange process the Company and the respective subsidiary purchased all the shares of individual minority shareholders whose total nominal value of their sharing was less than the nominal value of a single share from a new emission for the total consideration of approximately US$ 10 million. Own shares held on subsidiary's accounts were then eliminated in July 2001. As a result of this exchange the Company extended its ownership in Noyabrsk, OR, and Nefteproduct to 100%. For consolidation purposes these acquisitions resulted in negative goodwill of US$ 228 million, which has been allocated against oil and gas properties and property, plant and equipment.

8. Oil and Gas Properties

Oil and gas properties as of December 31, are as follows (in US$ thousands):

	2001	2000
Oil and gas properties	7,618,044	7,422,671
Less: Depreciation, depletion and amortization	(4,770,204)	(4,703,386)
Total oil and gas properties, net	2,847,840	2,719,285

In connection with the increase in the Company's ownership percentage in Noyabrsk charter capital, a reduction in net oil and gas properties of US$ 109 million (US$ 78 million for 2000) has been made on consolidation (see Note 7). The depreciation charge for the year was US$ 140 million (US$103 million for 2000).

9. Property, Plant and Equipment

Property, plant and equipment as of December 31, is as follows (in US$ thousands):

	2001	2000
Buildings	1,081,033	1,138,894
Machinery and equipment	1,056,559	1,151,425
Vehicles and other equipment	70,218	73,103
	2,207,810	2,363,422
Less: Accumulated depreciation	(1,814,480)	(1,891,083)
Total property, plant and equipment, net	393,330	472,339

In connection with the increase in the Company's ownership percentage in Geofizika, OR and Nefteprodukt charter, a reduction in net property, plant and equipment of US$ 119 million (US$ 329 million in 2000) has been made on consolidation (see Note 7). The depreciation charge for the year was US$ 162 million (US$ 189 million for 2000).

10. Construction in Progress

Construction in progress includes various construction projects and machinery and equipment delivered but not yet installed. As of December 31, 2001, detail of construction in progress is as follows (in US$ thousands):

	Construction Work in Progress	Machinery/ Equipment To be installed	Total
Buildings	74,251	-	74,251
Plant and machinery	50,314	-	50,314
Vehicles and other equipment	24,320	32,826	57,146
Total	148,885	32,826	181,711
Comparative balance at December 31, 2000	152,536	18,217	170,753

11. Short-Term Loans

As of December 31, the Company had short-term loans outstanding as follows (in US$ thousands):

	2001	2000
Banks	293,401	348,355
Related parties	17,792	7,675
Other	3,671	48,995
Total	314,864	405,025

Bank loans are comprised of (1) export financing loan facilities in US$ from major western banks and their affiliates, secured by Noyabrsk crude production and (2) unsecured loans from Russian banks, denominated in US$ with fixed terms of repayment.

In general, short-term loans are used for the provision of working capital needs. As of December 31, 2001 more than 90 % of loans were provided in US$. The Company has two bank loans outstanding as of December 31, 2001 from Raiffeisenbank. The short-term loans from Raiffeisenbank total to US$ 98.4 million and bear floating interest at rates from LIBOR plus 3.8% to LIBOR plus 4.0%. These loans are secured by Noyabrsk export proceeds.

At December 31, 2001, Sibneft also has a number of loans from Doveritelny Investitsiony Bank amounting to US$ 180 million. These balances are unsecured and bear interest at an annual rate of 11.2%. Also at December 31, 2001 the Company has an unsecured loan of US$ 15 million from Vneshekonombank bearing interest at an annual rate of 10.0%.

Weighted average interest rates related to the short-term loans outstanding as of December 31, 2001 for US$ and ruble denominated loans equal 9.0% and 25.0%, respectively (12.0 and 0.1%, respectively for December 31, 2000). During the year ended December 31, 2001, the weighted average US$ and ruble denominated short-term debt balances outstanding were US$ 285 million and US$ 37 million, respectively, with weighted average interest rates of 9 and 11 percent, respectively. During 2000, the weighted average US$ and ruble denominated short-term debt balances outstanding were US$ 117 million and US$ 13 million, respectively, with weighted average interest rates of 9 and 23 percent, respectively.

12. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of December 31, comprise the following (in US$ thousands):

	2001	2000
Trade accounts payable	266,074	295,657
Other accounts payable	28,488	87,271
Total accounts payable	294,562	382,928

13. Income and Other Taxes

Income and other taxes payable comprise the following as of December 31, (in US$ thousands):

	2001	2000
Value added tax	20,332	15,357
Excise tax	77,314	10,390
Income tax	17,192	(5,068)
Other	25,823	18,619
Total income and other taxes payable	140,661	39,298

The information provided above should be read in conjunction with the following comments in relation to the general Russian taxation environment. Russia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax), a number of turnover based taxes, and payroll (social) taxes, together with others. In addition, the subsidiaries of the Company are also subject to various industry taxes including excise and mineral replenishment taxes. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, implementing regulations are often unclear or nonexistent. Accordingly, few precedents with regard to many issues have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations (like the State Tax Service and its various inspectorates); thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, who are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia substantially more significant than typically found in countries with more developed tax systems.

Generally, tax declarations remain open and subject to inspection for a period of three years. As of December 31, 2001, a substantial proportion of the tax declarations of the Company have been reviewed through to 1999. Management believes that the Company is in substantial compliance with the tax laws affecting its operations; however, the risk remains that the relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant. The fact that a year has been reviewed does not close that year, or any tax declaration applicable to that year, from further review during the three year period.

14. Site Restoration Costs

Future site restoration costs represent the estimated future cost to abandon wells and production facilities. As of December 31, 2001 and 2000 management estimates of these costs were US$ 226 million and US$ 247 million, respectively. During 2001 and 2000, the Company has included US$ 10 million and US$ 8 .million, respectively, of such costs as components of depreciation, depletion and amortization expense.

The Company has estimated its liability based on site restoration costs incurred during 2001 and 2000 and will continue to update its estimates in the future. However, Russian environmental regulations and their enforcement can have a significant impact on these costs and, as governmental authorities are continually considering such regulations, the future costs associated with these liabilities may differ from the recorded amounts.

15. Long-Term Debt

As of December 31, the Company had outstanding loans as follows (in US$ thousands):

	2001	2000
Runicom loan	-	187,528
Bank loans	608,333	
Total long-term debt	608,333	187,528

Bank loans are comprised of loan facilities in US$ from major western banks and their affiliates, secured by Noyabrsk crude production.

In general, long-term loans are used for the provision of capital expenditures and investment needs. The Company has three secured bank loans outstanding as of December 31, 2001 from Societe Generale S.A. and ABN-Amro bank. Two US$ loans from Societe Generale S.A. totalling to US$ 308 million consist of US$ 133 million due April 2003, bearing floating interest at rates of LIBOR plus 5.1% and US$ 175 million due May 2005, bearing floating interest at rates of LIBOR plus 4.0%.

The Company has a US$ 300 loan from ABN Amro Bank repayable in rubles at the rate of exchange as of the date of payment. The loan is due August 2004 and bears floating interest at rates of LIBOR plus 4.5%.

The loan agreements with ABN Amro Bank and Societe Generale S.A. each have a number of covenants incorporated therein. The Societe Generale S.A. loans have covenants which impose certain restrictions on dividends to be paid and/or declared, and restrict total total debt to no more than 55% of net worth (as defined by the respective agreement). The ABN Amro Bank loan agreement has covenants that require the Company's ratios of net sales to debt payments, EBITDA to total debt payments, and total exports to total US -denominated debt to be within certain limits, and its total debt to total assets ratio to be no greater than 70%. Management believes the Company is in compliance with these covenants as of December 31, 2001.

Runicom Loan

In December 2000, the Company received an interest free loan of US$ 224,734 thousand from Runicom Ltd, a shareholder. The loan was originally scheduled to be repaid in August 2002. The loan was initially recorded at its present value of US$ 187,528 thousand. The benefit of US$ 37,206 thousand was credited to Additional Paid-In Capital.

In November 2001, Sibneft repaid the loan in full. During the first eleven months of 2001, US$ 20,628 thousand accreted on the loan and was charged to interest expense. Unaccreted interest of US$ 16,578 as of settlement date was charged directly to Additional Paid-In Capital.

Maturities of long-term loans as of December 31, 2001 are as follows (in US$ thousands):

Date due	Bank	Amount due
April 2003	Societe Generale S.A.	133,333
August 2004	ABN Amro	300,000
May 2005	Societe Generale S.A.	175,000
		608,333

16. Capitalization

The shareholders' capital account represents the authorized capital of the Company, as stated in its charter document. The common shareholders are allowed one vote per share. Dividends paid to shareholders are determined by the directors and approved at the annual shareholders' meeting.
The following comprises the share structure of the Company, as of December 31, 2001:

	Number of Shares (millions)	Ownership Percentage
OAO Western Siberian Depositary (as nominee)	1,000	21.1%
ABN AMRO Bank (as nominee)	929	19.6%
ING Bank ZAO (as nominee)	917	19.3%
Deutsche Bank (as nominee)	826	17.4%
National Deposit Center (as nominee)	704	14.9%
Other investors	365	7.7%
Total	4,741	100.0%

17. Dividends

In accordance with RAR, earnings available for dividends are limited to profits, retained earnings and other income, denominated in rubles, after certain deductions. The Company declared US$ 993 million common stock dividends for 2001. The respective amount declared by the Company for 2000 amounted to US$ 51 million.

18. Income Taxes

The Company's provision for income taxes as reported in the accompanying consolidated income statements is as follows (in US$ thousands):

	2001	2000
Current income taxes	132,402	78,365
Deferred income taxes	1,720	-
Total provision for income taxes	134,122	78,365

The current portion of income taxes represents the total income tax expense for the Company and each of its subsidiaries.

Although the Company does not pay tax on a consolidated basis, a reconciliation of expected income tax expense to the actual tax expense, for the years ended December 31, is as follows (in US$ thousands):

	2001	2000
Income before income taxes	1,439,396	753,210
Statutory income tax rate	35%	30%
"Expected" income tax expense	503,789	225,963
Add (deduct) tax effect of:		
Benefit of income taxed at lower rate	(450,924)	(253,260)
Minority interest effect on income	255	(18,465)
Change in unrecognised deferred tax assets	(44,244)	7,350
Permanent accounting differences	125,246	116,777
Income taxes	134,122	78,365
Effective tax rate	9%	10%

Unused credits may not be carried forward under Russian tax legislation. Accordingly, tax credits are reflected in the Company's financial statements in the year in which the credits are utilized.

Temporary differences between the Russian statutory accounts and these financial statements give rise to the following deferred tax assets and liabilities at December 31, 2001 and 2000 (in US$ thousands):

	2001	2000
Assets / (liabilities) arising from the tax effect of:		
Fixed assets	54,440	89,099
Long-term investments	(1,720)	-
Site restoration costs	10,273	19,858
	62,993	108,957
Valuation allowance for deferred tax assets	(64,713)	(108,957)
Net deferred tax assets / (liabilities)	(1,720)	-

Deferred tax assets arise in the Company's subsidiaries, which management believe are not likely to be realized given the current operating structure; accordingly, a 100 % valuation allowance is made against deferred tax assets.

19. Commitments and Contingencies

Construction and Exploration Programs

The Company is engaged in continuous construction and exploration programs, currently estimated to total US$ 408 million (unaudited) over the next year at Noyabrsk and US$ 35 million (unaudited) over the next year for OR. The construction and exploration programs are subject to periodic reviews and actual expenditures may vary from the above estimates. At December 31, 2001, no significant purchase commitments were outstanding in connection with the construction programs.

Financing for all of the future costs has not yet been secured, and Sibneft is actively pursuing various financing opportunities. It is the opinion of management that the Company will be able to obtain all necessary financing to complete the construction programs.

Environmental Matters

Management is of the opinion that the Company has met the government's requirements concerning environmental matters, and therefore believes that the Company does not have any material current environmental liabilities.

Insurance Matters

The Company maintained only minimal levels of insurance on its existing asset base, or in certain cases self-insured, and as a result is subject to significant uninsured exposures in the event of loss or destruction of principal operating assets. The Company substantially increased its insurance coverage in April 2002.

20. Related Party Transactions

During 2000, the Company repurchased 1,291,482,200 (approximately 27%) of its own shares for approximately US$ 542 million. As of December 31, 2000 these treasury stocks were held by different nominees.

In June 2001, the Company sold the shares acquired in 2000 to the existing group of core shareholders for approximately US$ 572 million. The shares were sold at 44 cents per share, which was the market price prevailing at the date of the transaction. The gain from this sale, of approximately US$ 30 million, was charged to Additional Paid-In Capital.

21. Segment Information

Presented below is information about the Company's operating segments for the years ended December 31, 2001 and 2000. The Company determined its operating segments based on differences in the nature of their operations. The exploration and production segments explore, find, develop and produce crude oil and natural gas. The manufacturing, marketing and distribution segments process crude oil into refined products and purchase, sell and transport crude oil and refined petroleum products.

Operating Segments 2001:

	Exploration and Production	Manufacturing, Marketing And Distribution	Consolidated
Revenues			
Total	3,026,011	2,272,669	5,298,680
Inter-segment eliminations	(1,723,001)	-	(1,723,001)
Outside	1,303,010	2,272,669	3,575,679
Operating income	698,468	706,769	1,405,237
Capital expenditures, net	533,366	85,351	618,717
Depreciation, depletion and amortization	234,409	79,507	313,916
Total assets	2,990,116	2,722,680	5,712,796

Operating Segments 2000:

	Exploration and Production	Manufacturing, Marketing And Distribution	Consolidated
Revenues			
Total	1,038,674	1,954,792	2,993,466
Inter-segment eliminations	(369,646)	(225,898)	(595,544)
Outside	669,028	1,728,894	2,397,922
Operating income	424,887	302,530	727,417
Capital expenditures, net	219,249	11,686	230,935
Depreciation, depletion and amortization	207,698	92,302	300,000
Total assets	2,628,942	1,943,627	4,572,569

22. Subsequent Events

In January 2002, the Company placed US$ 250 million in 5-year Eurobonds on the Luxemburg Stock Exchange. The bonds bear interest of 11.5 percent per year. Subsequently, in March 2002, the Company extended the issue up to US$ 400 million. The additional portion bears interest of 10.96% per year. All bonds have a semi-annual coupon.

In April 2002, the Company acquired a 67% interest in NK Meretoyahaneftegas for US$ 19 million. This company is involved in exploration and production in Yamalo-Nentsk autonomous region.

On May 15, 2002 the Board of Directors approved the interim dividends of 6.11 ruble per share, which equals the amount accrued in the 2001 financial statements. The 2001 dividends, which were declared in 2001 as interim dividends, are subject to final approval at the annual meeting of the shareholders.

23. Supplemental Information on Oil and Gas Activities (Unaudited)

In accordance with SFAS 69, "Disclosures about Oil and Gas Producing Activities", the Company is making certain supplemental disclosures about its oil and gas exploration and production operations. While this information was developed with reasonable care and disclosed in good faith, it is emphasized that some of the data is necessarily imprecise and represents only approximate amounts because of the subjective judgments involved in developing such information. Accordingly, this information may not necessarily represent the current financial condition of the Company or its expected future results.

The Company's exploration and development activities are exclusively within the Russian Federation; therefore, all of the information provided in this section pertains entirely to this region.

Capitalized Costs Relating to Oil and Gas Producing Activities

The following tables set forth information regarding oil and gas exploration and development costs. The amounts reported as costs incurred include both capitalized costs and costs charged to expense during the year, ended December 31, 2001 and 2000 respectively (in US$ thousands):

	2001	2000
Capitalized costs of proved oil and gas properties	7,599,995	7,422,671
Capitalized costs of unproved oil and gas properties	18,049	-
Total capitalized costs of oil and gas properties	7,618,044	7,422,671
Less: Depreciation, depletion and amortization	(4,770,204)	(4,703,386)
Total net capitalized costs of oil and gas properties	2,847,840	2,719,285

	2001	2000
Costs incurred in oil and gas properties acquisitions, exploration and development activities		
Exploration costs	39,268	4,779
Development costs	359,837	219,249
Total costs incurred in oil and gas properties acquisitions, exploration and development activities	399,105	224,028

Results of Operation from Oil and Gas Producing Activities

The Company's results of operations from oil and gas producing activities are shown below. Natural gas production does not represent a material portion of the Company's total oil and gas production.

In accordance with SFAS 69, results of operations for oil and gas producing activities do not include general corporate overhead and monetary effects, or their associated tax effects. Income tax is based on statutory rates for the years ended, respectively, adjusted for tax deductions, tax credits and allowances. For the years ended December 31, 2001 and 2000 respectively (in US$ thousands).

	2001	2000
Revenues from net production		
Sales	1,303,010	669,028
Transfers [1]	932,255	444,864
Total revenues	2,235,265	1,113,892
Operating expenses	255,950	212,556
Exploration expenses	21,220	4,779
Depreciation, depletion and amortization	284,729	254,042
Taxes, other than income tax	142,210	111,661
Pretax income from producing activities	1,531,156	530,854
Income tax expenses	137,804	53,090
Results of oil and gas producing activities	1,393,352	477,764

[1] Transfers represent oil transferred for processing to affiliated enterprises. Such transfers are valued at average domestic market prices for crude oil.

Proved Oil and Gas Reserve Quantities

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. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Proved reserves include additional quantities of oil and gas reserves recoverable beyond the term of the license agreement which 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. Proved undeveloped reserves are those reserves which are expected to be recovered as a result of future investments to drill new wells, to recomplete existing wells and/or install facilities to collect and deliver the production from existing and future wells.

As determined by the Company's independent reservoir engineers, Miller and Lents, Ltd., the following information presenting the balances of proved oil and gas reserves and changes thereto as of and for the years ended December 31, 2001 and 2000 is shown in the table set out below (in millions of barrels):

	2001	2000
Proved Reserves at January 1,	4,644	4,599
Changes attributable to:		
Extentions, discoveries and changes in estimates	345	169
Production	(146)	(124)
Proved Reserves at December 31,	4,843	4,644
Minority's share included in the above proved reserves	197	-
Proved reserves, adjusted for minority interest	4,646	4,644

Proved developed reserves	3,169	2,780
Proved developed reserves, adjusted for minority interest	2,972	2,780

Standardized measure of discounted future net cash flows and changes therein relating to proved oil and gas reserves

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 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 period. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end 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 cash flows, less the tax bases of related assets. Discounted future net cash flows have been calculated using a 10% 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 tables set out below does not represent management's estimate of the Group's expected future cash flows or of the value Group's proved oil and gas reserves. Estimates of proved reserves 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 the 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.

	2001	2000
Future cash inflows	53,475,400	49,693,550
Future production and development costs	(27,897,983)	(20,859,826)
Future income tax expenses	(4,840,415)	(5,859,559)
Future net cash flows	**20,737,002**	**22,974,165**
Discount of estimated timing of cash flows	(13,345,741)	(14,989,668)
Discounted future net cash flows	**7,391,261**	**7,984,497**

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

	2001	2000
Discounted present value as at beginning of year	**7,984,497**	**7,157,814**
Sales and transfers of oil and gas produced, net of	(1,438,878)	(527,351)
Extension, discoveries and changes in estimates	(692,440)	1,148,786
Changes in future development costs	(1,218,866)	(701,565)
Development costs incurred during the period	359,837	219,249
Revisions of previous quantity estimates	663,498	332,563
Net change in income taxes	309,426	(143,221)
Accretion of discount	995,601	898,610
Other changes	428,586	(400,388)
Discounted present value as at end of year	**7,391,261**	**7,984,497**