AO SIBERIAN OIL COMPANY

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2002 AND 2001
TOGETHER WITH REPORT OF INDEPENDENT AUDITOR

AO Siberian Oil Company
Consolidated Balance Sheets
As of December 31, 2002 and 2001
(Thousands of US Dollars)

	Notes		2002		2001
Assets					
Current assets:					
Cash and cash equivalents	3	$	620 875	$	51 649
Loans receivable	4		48 668		299 276
Accounts receivable, net (less allowance for doubtful accounts of $65,620 and $46,409, respectively)	5		1 356 787		765 794
Inventories, net	6		322 340		232 876
Prepaid expenses			31 167		4 581
Total current assets			2 379 837		1 354 176
Long-term investments	7		1 159 064		930 889
Oil and gas properties, net	8		3 351 536		2 847 840
Property, plant and equipment, net	9		501 876		393 330
Construction in progress	10		145 344		181 711
Other noncurrent assets			10 799		4 850
Total assets		$	7 548 456	$	5 712 796
Liabilities and shareholders' capital					
Current liabilities:					
Short-term loans	11	$	148 301	$	314 864
Accounts payable and accrued liabilities	12		625 679		233 574
Related party payable	20		80 518		60 988
Income and other taxes	13		134 173		140 661
Other current liabilities			22 260		45 092
Current portion of long-term debt	15		430 414		-
Total current liabilities			1 441 345		795 179
Dividends payable			367		194 584
Assets retirement obligation	14		157 113		76 283
Long-term debt	15		1 658 079		608 333
Minority interest			-		1 682
Total liabilities			3 256 904		1 676 061
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		858 987
Reserves			1 867 449		1 867 449
Retained earnings			1 565 068		1 308 680
Accumulated other comprehensive loss			(1 571)		-
Total shareholders' capital			4 291 552		4 036 735
Total liabilities and shareholders' capital		$	7 548 456	$	5 712 796

AO Siberian Oil Company

Consolidated Income Statements

For the Years Ended December 31, 2002 and 2001

(Thousands of US Dollars)

	Notes	2002	2001
Revenues			
Refined products and oil and gas sales		$ 4 710 679	$ 3 449 145
Other		66 012	126 534
Total		4 776 691	3 575 679
Costs and other deductions			
Operating expenses		1 205 368	702 292
Selling, general and administrative expenses		819 708	608 965
Cost of other sales		36 720	101 818
Depreciation, depletion and amortization		410 033	313 916
Exploratory expenses		14 792	21 220
Taxes other than income taxes		896 995	422 231
Total		3 383 616	2 170 442
Operating income		1 393 075	1 405 237
Other income / (expense)			
Interest received and other income		8 875	731
Interest paid and other expense		(123 955)	(47 943)
Other non-operating income	7	148 187	128 764
Other non-operating expense, net		(115 231)	(81 566)
Minority interest		9 896	(729)
Currency translation gain		3 690	34 902
Total		(68 538)	34 159
Income before provision for income taxes and cumulative effect of a change in accounting principle		1 324 537	1 439 396
Provision for income taxes		163 087	134 122
Net income before cumulative effect of a change in accounting principle		1 161 450	1 305 274
Cumulative effect of a change in accounting principle, net	14	(939)	-
Net income		1 160 511	1 305 274
Other comprehensive loss, net	17	(1 571)	-
Total comprehensive income		$ 1 158 940	$ 1 305 274
Basic and Diluted Earnings per Common Share			
Net income before cumulative effect of a change in accounting principle		$ 0,2450	$ 0,3217
Cumulative effect of a change in accounting principle, net		$ (0,0002)	$ -
Basic and Diluted Earnings per Common Share		$ 0,2448	$ 0,3217
Average number of common shares outstanding (millions)		4 741	4 057

AO Siberian Oil Company
Consolidated Statements of Cash Flows
For the years ended December 31, 2002 and 2001
(Thousands of US Dollars)

	2002	2001
Operating activities		
Net income	$ 1 160 511	$ 1 305 274
Reconciliation of net income to net cash provided by operating activities:		
Effect of change in accounting principle	939	-
Accrued equity accounting income	(9 328)	-
Depreciation, depletion and amortization	410 033	313 916
Interest expense on Runicom loan	-	20 628
Retirement obligations accretion expenses	11 637	-
Loss / (gain) on disposal of property, plant and equipment	19 940	(554)
Loss / (gain) on sales of investments	3 319	(5 802)
Impairement of goodwill	20 466	-
Minority interest	(9 896)	729
Changes in current assets and liabilities:		
(Increase) in accounts receivable	(610 204)	(329 758)
Increase in provision for doubtful accounts	19 211	12 659
(Increase) in inventories	(89 464)	(63 759)
(Increase) / decrease in prepaid expenses	(26 586)	10 245
Decrease in other noncurrent assets	3 121	4 075
Increase / (decrease) in accounts payable and accrued liabilities	411 635	(88 366)
Increase / (decrease) in income and other taxes	(6 488)	101 363
(Decrease) / increase in other current liabilities	(22 832)	30 638
Net cash provided by operating activities	1 286 013	1 311 288
Investing activities		
Investments made	(243 738)	(726 107)
Loans receivable redemption	250 608	-
Acquisition of shares in subsidiaries	(20 176)	(10 179)
Proceeds from investments sales	22 098	52 388
Proceeds from disposals of property, plant and equipment	18 596	237
Capital expenditures	(959 432)	(618 717)
Net cash used in investing activities	(932 044)	(1 302 378)
Financing activities		
Net increase / (decrease) in short-term loans	263 851	(90 161)
Net increase in long-term debt	1 049 746	383 599
Dividends paid	(1 098 340)	(849 565)
Treasury stock sales	-	571 780
Net cash provided by financing activities	215 257	15 653
Increase in cash and equivalents	569 226	24 563
Cash and equivalents at beginning of year	51 649	27 086
Cash and equivalents at end of year	$ 620 875	$ 51 649
Supplemental disclosures of cash flow information		
Cash paid for interest, net of interest capitalized	$ 75 044	$ 12 872
Cash paid for income taxes	$ 173 719	$ 107 679

AO Siberian Oil Company

Statement of Changes in Shareholders' Capital

For the Years Ended December 31, 2002 and 2001

(Thousands of US Dollars)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Reserves	Retained Earnings	Comprehensiv Income
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	-
Net income for the year					1 160 511	
Common stock dividends					(904 123)	
Other comprehensive loss, net						(1 571)
Balance at December 31, 2002	$ 1 619	$ 858 987	$ -	$ 1 867 449	$ 1 565 068	$ (1 571)

INDEPENDENT AUDITORS REPORT

To the Shareholders of AO Siberian Oil Company:

We have audited the accompanying consolidated balance sheet of AO Siberian Oil Company, a Russian open joint stock company, and subsidiaries ("the Company") as of December 31, 2002, and the related consolidated statements of income, changes in shareholders' capital and cash flow for the year 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 audit. The financial statements of the Company as of and for the year ended December 31, 2001, were audited by other auditors who have ceased their operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated June 21, 2002.

We conducted our audit 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 audit provides 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, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

As further described in the unaudited Supplemental Oil and Gas Information, the Company has presented proved oil and gas reserve quantities and standardized measure of discounted future net cash flows as of December 31, 2002 only, as comparative information for previous years is currently unavailable. For the same reason, disclosures of changes in proved oil and gas reserve quantities and changes in standardized measure of discounted future net cash flows for each of two years in the period ended December 31, 2002 have not been presented. Such information is required under Statement of Financial Accounting Standards No. 69 "Disclosures about Oil and Gas Producing Activities", that the Financial Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Moscow, Russia
May 26, 2003

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

The Russian economy while deemed to be of market status beginning in 2002, continues to display certain traits consistent with that of a market in transition. These characteristics have in the past included higher than normal historic inflation, lack of liquidity in the capital markets, and the existence of currency controls, which cause the national currency to be illiquid outside of Russia. The continued success and stability of the Russian economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

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 2001 and 2002, the Ruble's value fluctuated between 28.2 and 31.86 to 1 US$. As of December 31, 2002, the exchange rate was 31.78 Rubles to 1 US$.

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
2002	15.1%
2001	18.6%
2000	20.2%

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 as of December 31, 2002 and 2001 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.

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

The Company classifies as cash and cash equivalents, amounts on deposit in banks, letters of credit and all highly liquid investments with a maturity of three months or less from the date of purchase.

Trade Receivables

Trade receivables are presented at net realizable value. Allowances are provided for estimated uncollectible amounts. Estimation is made based on aging of the receivable, past history of settlements with the debtor and existing economic conditions. The past due status of receivable is determined based on contractual obligations. Allowances for uncollectible amounts are recorded as a part of selling, general and administrative expenses.

VAT Receivable

Value added tax ("VAT") paid in connection with the transport and export of crude oil relates to exempt activities and is eligible for refunds upon completion of each transaction. VAT paid in connection with capital construction is recoverable upon capital construction completion and placing such assets into operation.

Loans receivable

Loans receivables are presented at net realizable value. Allowances are provided for estimated losses. Estimation is made based on past history of settlements with the borrower and existing economic conditions. The past due status of receivable is determined based on contractual obligations. Allowances for losses are recorded as a part of other expenses. Interest income is accrued when it's due and recorded as a part of interest received and other income.

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. Based on the result of the latest evaluation as of December 31, 2002, no writedown was required for the period ended December 31, 2002.

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.

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

Impairment of Fixed Assets

From January 1, 2002 the Company has adopted Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 establishes a probability weighted cash flow estimation approach to deal with situations in which there is a range of cash flows that may be generated by the asset being tested for impairment. There was no effect in the current year financial statements upon adoption of this standard.

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 2002 and 2001, interest capitalized related to capital projects amounted to US$ 10 million and US$ 19 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, 2002		December 31, 2001	
	Voting	Total	Voting	Total
Geofizika	6%	19%	6%	19%
Meretoyahaneftegas	33%	33%	-	-
Sibneft-Ugra	50%	50%	-	-

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 24% and 35% percent, as of December 31, 2002 and 2001, 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. As of December 31, 2001 comprehensive income equaled net income. As of December 31, 2002 comprehensive income includes other comprehensive loss from unrealized hedging activities (see Note 17).

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.

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 are provided to customers.

Revenues are stated net of taxes.

Transportation costs

The Company incurred US$ 400 million and US$ 251 million on delivering of crude oil and refined products to its customers for the years ended December 31, 2002 and 2001, respectively. These costs are accounted as part of selling, general and administrative expenses.

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 yet to be Adopted

In April 2002, the FASB issued SFAS No. 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 No. 4 will no longer be classified as such. The provisions of SFAS No. 145 are effective for fiscal years beginning after May 15, 2002 although early application of the Statement related to the rescission of SFAS No. 4 is encouraged. The Company plans to adopt SFAS No. 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. No extraordinary items were recorded in the 2001 or 2002 financial statements.

In November 2002, the Financial Accounting Standards Board issued Interpretation (FIN) No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others” (“FIN No. 45”). FIN No. 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it had issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligations undertaken in issuing the guarantee. The measurement and initial recognition provision of FIN No. 45 are effective for guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN No. 45 are effective for financial statements of periods ending after December 15, 2002. Management does not believe this new accounting standard will have a material effect on the Company’s financial statements due to the fact that the Company does not engage in this type of activity at present.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires that a liability be recognized for exit and disposal costs only when the liability has been incurred and when it can be measured at fair value. The statement is effective for exit and disposal activities that are initiated after December 31, 2002. The Company will adopt SFAS No. 146 in 2003 and does not anticipate that adoption of SFAS No. 146 will have a material effect on its financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure." SFAS No. 148 permits two additional transition methods for companies that elect to adopt the fair-value-based method of accounting for stock-based employee compensation. The statement also expands the disclosure requirements for stock-based compensation. The provisions of this statement apply to financial statements for fiscal years ending after December 15, 2002. The statement did not have a material effect on the financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities". FIN No. 46 requires a company to consolidate a variable interest entity if it is designated as the primary beneficiary of that entity even if the company does not have a majority of voting interests. A variable interest entity is generally defined as an entity where its equity is unable to finance its activities or where the owners of the entity lack the risk and rewards of ownership. The provisions of this statement apply at inception for any entity created after January 31, 2003. For an entity created before February 1, 2003, the provisions of this Interpretation must be applied at the beginning of the first interim or annual period beginning after June 15, 2003. The Company does not anticipate that adoption of FIN No. 46 will have a material impact on its results of operations or its financial position.

3. Cash and Cash Equivalents

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

	2002	2001
Cash in bank – rubles	43,297	11,961
Cash in bank – foreign currency	575,659	23,153
Restricted cash	1,857	16,510
Cash on hand	62	25
Total cash and cash equivalents	620,875	51,649

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):

	2002	2001
Trade receivables	753,214	508,174
Advances paid to suppliers	351,748	179,626
Value added tax receivable	222,715	88,514
Other	94,730	35,889
Less allowance for doubtful accounts	(65,620)	(46,409)
Total accounts receivable	1,356,787	765,794

Trade receivables are represented by amounts due from regular customers in the 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):

	2002	2001
Crude oil	48,409	22,051
Petroleum products	79,290	27,577
Materials and supplies	164,869	147,619
Other	29,772	35,629
Total inventories	322,340	232,876

7. Long-Term Investments

None of the companies listed below are publicly traded in 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, 2002 and 2001 (in US$ thousands):

	2002	2001
Investments in Russian companies		
- Oil and gas producing	475,482	444,886
- Refining	263,529	254,206
- Marketing	89,969	71,719
- Investment trust	227,057	76,347
- Other	29,624	9,069
Other long-term investments	73,403	74,662
Total long-term investments	1,159,064	930,889

Included in oil and gas producing associated companies as of December 31, 2002 is a 26% (2001 - 26%) interest in the common stock and a 12% (2001 - 12%) interest in the preferred stock of Orenburgneft and a 1% (2001 - 1%) interest in the common stock of ONAKO. The total costs for these investments are US$ 430 million as of December 31, 2002 and 2001. Orenburgneft is a consolidated subsidiary of ONAKO. The initial interests were acquired in December 2000. The Company exercises significant influence by controlling three out of nine positions on the board of directors on ONAKO. 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 2002 and 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 2002, the joint venture earned US$ 396 million, of which US$ 132 million (US$ 122 million in 2001) was attributable to the Company and is reflected in other non-operating income.

Investments in refining consists of a 37% voting interest in Moskovsky Neftepererabativaushiy Zavod (MNPZ) acquired during November 2001, for US$ 254 million. Based on financial statements and management estimates the Company's share of MNPZ's earnings for 2002 amounted to US$ 9.3 million and is reflected in other non-operating income.

The following table represents the Company's proportional interest in the summarized financial information of MNPZ based on translated financial statements (unaudited):

	2002	2001
Total assets	115,676	111,503
Total liabilities	27,244	32,176
Net Income	9,328	-

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

Other long-term investments represent a US$ 68 million advance during 2001 by the Company to a 50%-owned investee, which 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 converted the advance into equity during 2002. During 2002 the Company increased its share in the utility company by 5.15% through the acquisition of a third party interest for US$ 5.4 million. These investments are accounted at cost.

During 2002, the Company increased investments in CDSV Trust from 25% to 50% for additional cost of US$ 152 million paid to a third party. The trust holds 13.1 percent interest in OAO Slavneft and various equity interests in Slavneft subsidiaries.

Acquisition of Additional Shares in Subsidiaries

In May and September 2002 the Company acquired a 67% interest in NK Meretoyahaneftegas through a series of transactions for US$ 20 million. Meretoyahaneftegas is involved in exploration and production in Yamalo-Nenetsky autonomous region and is a consolidated subsidiary from the point of acquisition.

8. Oil and Gas Properties

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

	2002	2001
Oil and gas properties	8,285,692	7,618,044
Less: Depreciation, depletion and amortization	(4,934,156)	(4,770,204)
Total oil and gas properties, net	3,351,536	2,847,840

The Company's oil and gas fields and related hydrocarbons belong to government authorities. The Company obtains licenses from such government authorities and pays royalties to explore and produce from these fields. These licenses expire between 2013 and 2022. Management believes the licences may be extended at the initiative of the Company and management intends to extend such licenses for properties expected to produce subsequent to their license expiry dates.

9. Property, Plant and Equipment

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

	2002	2001
Buildings	1,240,688	1,081,033
Machinery and equipment	1,087,382	1,056,559
Vehicles and other equipment	69,050	70,218
	2,397,120	2,207,810
Less: Accumulated depreciation	(1,895,244)	(1,814,480)
Total property, plant and equipment, net	501,876	393,330

10. Construction in Progress

Construction in progress includes various construction projects and machinery and equipment delivered but not yet installed. As of December 31, 2002, detail of construction in progress is as follows (in US$ thousands):

	Construction Work in Progress	Machinery / Equipment To be installed	Total
Buildings	15,283		15,283
Plant and machinery	29,485		29,485
Vehicles and other equipment	34,084	66,492	100,576
Total	78,852	66,492	145,344
Comparative balance at December 31, 2001	148,885	32,826	181,711

11. Short-Term Loans

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

	2002	2001
Banks	119,207	293,401
Related parties	25,427	17,792
Other	3,667	3,671
Total	148,301	314,864

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$ and rubles with fixed terms of repayment.

In general, short-term loans are used for the provision of working capital needs. As of December 31, 2002 more than 94% of the loans were provided in US$. The Company has three bank loans outstanding as of December 31, 2002 from Raiffeisenbank. The short-term loans from Raiffeisenbank total to US$ 91 million and bear floating interest at rate of LIBOR plus 5.42%. These loans are secured by crude and products export proceeds.

At December 31, 2002 the Company has a US$ 20 million unsecured loan outstanding from Westdeutsche Landesbank Vostok. The loan bears a floating interest at rate of LIBOR plus 3.5%.

At December 31, 2002 the Company has a US$ 8 million unsecured loan outstanding from MDM-BANK. The loan bears an interest at rate of 7.25%.

In addition the Company has a loan from Noyabrskneftecombank repayable in rubles amounting to US$ 8 million. The loan bears interest rate of 20%.

Excluding the Noyabrskneftecombank loan related party debt is represented by a number of non-banking borrowings totaling US$ 17 million bearing no interest.

Weighted average interest rates related to the short-term loans outstanding as of December 31, 2002 for US$ loans equal 6.41%. During the year ended December 31, 2002, the weighted average US$ and ruble denominated short-term debt balances outstanding were US$ 194 million and US$ 10 million, respectively, with weighted average interest rates of 7 and 19 percent, respectively. 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.

12. Accounts Payable and Accrued Liabilities

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

	2002	2001
Trade accounts payable	608,285	205,086
Other accounts payable	17,394	28,488
Total accounts payable	625,679	233,574

13. Income and Other Taxes

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

	2002	2001
Value added tax	50,617	20,332
Excise tax	55,630	77,314
Income tax	9,455	17,192
Road users Tax	8,144	679
Property Tax	6,258	4,805
Other	4,069	20,339
Total income and other taxes payable	134,173	140,661

Effective January 2002, the Government of the Russian Federation introduced a mineral extraction tax, replacing three upstream taxes: excise on crude produced, royalty and mineral replenishment.

Mineral Extraction tax has a fixed rate per ton of crude produced equal to 340 rubles and indexed based on Urals price and ruble to dollar exchange rate. During the first quarter 2002 the average rate was equal to 490 rubles, during the second quarter - 663 rubles, during the third – 761 rubles and during the forth quarter 2002 – 753 rubles.

14. Assets Retirement Obligation

From January 1, 2002 the Company decided to early adopt Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations ("SFAS 143"). The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. An entity measures changes in the liability for an asset retirement obligation due to passage of time by applying an interest method of allocation to the amount of the liability at the beginning of the period. The interest rate used to measure that change is the credit-adjusted risk-free rate that existed when the liability was initially measured. That amount is recognized as an increase in the carrying amount of the liability and as an expense classified as an operating item in the statement of income. Prior to 2002 estimated cost of dismantlement and removal of oil related facilities were accrued over the properties' productive lives using the unit-of-production method and recognized and classified as a long-term liability as the amortization expense was recorded.

The initial adoption resulted in an after-tax charge of US$ 1 million, which was recorded as a cumulative effect of a change in accounting principles. The pro-forma effect on net income for 2001 had the standard been adopted as of beginning of 2001, would also be approximately US$ 1 million. The adoption increased net oil and gas property by US$ 68 million, increased asset retirement obligations by US$ 69 million and in addition, the Company recorded a pre-tax charge to expense of approximately US$ 12 million in 2002 for the accretion of the liability and US$ 5 million for additional depreciation expense.

The pro-forma asset retirement obligation, if the adoption of this statement had occurred on January 1, 2001, would have been US$ 135 million at January 1, 2001 and US$ 144 million at December 31, 2001.

The following summarizes the activity of the asset retirement obligations (in US$ thousands)

Beginning balance as of January 1, 2002	144,242
Liabilities incurred in the current period	1,233
Accretion expense	11,638
Ending balance as of December 1, 2002	157,113

15. Long-Term Debt

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

	2002	2001
Bank loans	1,647,080	608,333
Other	10,999	-
Total long-term debt	1,658,079	608,333

Bank loans are comprised of loan facilities in US$ from major western banks and their affiliates.

In general, long-term loans are used for the provision of capital expenditures and investment needs. The Company has secured bank loans outstanding as of December 31, 2002 from Societe Generale S.A, Raiffeisen Zentralbank Oesterreich (RZB), Westdeutsche Landesbank Vostok (West LB), ABN-Amro bank and BNP Paribas S.A., and two unsecured loans from Salomon Brothers.

In December 2002, the Company placed US$ 500 million in 7-year Eurobonds on the Luxemburg Stock Exchange. The bonds bear interest of 10.75% per year. An accrued interest for the bonds in amount of US$ 3.9 million is accounted in current portion.

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% per year. Subsequently, in March 2002, the Company extended the issue up to US$ 400 million. All bonds have a semi-annual coupon. An accrued interest for the bonds in amount of US$ 18.0 million is accounted in current portion.

The Company has two secured US$ loans from Westdeutsche Landesbank Vostok totaling US$ 441.0 million that consist of US$ 351.0 million due December 2005 (including US$ 116.8 million of current portion), bearing floating interest at rates of LIBOR plus 3,5% and US$ 90.0 million due April 2006 (including US$ 23.7 million of current portion), bearing floating interest at rates of LIBOR plus 3.5%. These loans are secured by Noyabrsk export proceeds.

Two secured US$ loans from Societe Generale S.A. totalling to US$ 198.2 million consist of US$ 25 million due March 2003, bearing floating interest at rates of LIBOR plus 4.5% and US$ 173.2 million due April 2005 (including US$ 69.2 million of current portion), bearing floating interest at rates of LIBOR plus 3.8%. These loans are secured by Noyabrsk export proceeds.

The Company has a US$ 189.5 million (including US$ 112.3 million of current portion) secured loan from ABN Amro Bank repayable in rubles at the rate of exchange as of the date of payment. The loan is due July 2004 and bears floating interest at rates of LIBOR plus 3.75%.

The Company has a US$ 150.3 million (including US$ 21.4 million of current portion) secured loan from Raiffeisen Zentralbank Oesterreich due December 2005, bearing floating interest at rates of LIBOR plus 3.25%.

The Company has a US$ 149.2 million (including US$ 12.8 million of current portion) secured loan from BNP Paribas S.A. due June 2007, bearing floating interest at rates of LIBOR plus 4.1%.

Other long-term debt represents a number of US dollars and ruble denominated unsecured borrowings from non-banking organizations totaling US$ 38.1 million (including US$ 27.3 million of current portion) with maturity dates from 2006 to 2011 bearing interest at rates from nil to 10% on US$ denominated borrowings and from nil to 13% on ruble denominated respectively.

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 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, 2002.

Maturities of long-term bank loans as of December 31, 2002 are as follows (in US$ thousands):

Date due	Bank	Amount due
July 2004	ABN AMRO	77,240
April 2005	Societe Generale S.A.	103,983
December 2005	RZB	128,863
December 2005	West LB	234,274
April 2006	West LB	66,316
February 2007	Salomon Brothers	400,000
June 2007	BNP Paribas S.A.	136,404
January 2009	Salomon Brothers	500,000
		1,647,080

16. Capitalization

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. On December 16, 1998 the Company issued additionally 224,903,389 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.

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, 2002:

	Number of Shares (millions)	Ownership Percentage
ABN AMRO Bank (as nominee)	935	19.7%
OAO Western Siberian Depositary (as nominee)	922	19.5%
ZAO ING Bank (as nominee)	924	19.5%
National Deposit Center (as nominee)	706	14.9%
Deutsche Bank (as nominee)	657	13.8%
Other investors	597	12.6%
Total	4,741	100.0%

On May 15, 2003 at the Company's annual shareholder meeting, annual dividends on amount of US$ 1,092,284 thousands were approved by the shareholders for the year ended December 31, 2002, which equals to 7.22 rubbles per share. The dividends amount declared by the Company for 2001 amounted to US$ 993 million.

In accordance with RAR, earnings available for dividends are limited to profits, retained earnings and other income, denominated in rubles, after certain deductions.

In December 2002 the Company advanced US$ 904 million whereby the collection of these advances is expected to be made through the disbursements of subsequent dividends, for financial reporting purposes the Company presented these advances as a dividend-in-kind from shareholders capital for 2002.

17. Fair Value of Financial Instruments, Including Derivative Activity

<u>Fair values</u>

The estimated fair values of financial instruments are determined with reference to various market information and other valuation methodologies as considered appropriate, however considerable judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessary indicative of the amounts that the Company could realize in a current market situation. Certain of these financial instruments are with major financial institutions and expose the Company to market and credit risk. The creditworthiness of these institutions is routinely reviewed and full performance is anticipated.

The net carrying values of cash and cash equivalents, other short-term investments, loans receivable, accounts receivable and payable, taxes payable and accrued liabilities approximate their fair values because of the short maturities of these instruments.

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. However, management believes that the carrying value of these investments does not differ substantially from their fair value.

Loan arrangements on short-term and long-term debt have both fixed and variable interest rates that reflect the currently available terms for similar debt. The carrying value of this debt is a reasonable approximation of its fair value.

Credit risk

A significant portion of the Company's accounts receivable is from domestic customers and foreign oil companies. Although collection of these amounts could be influenced by economic factors affecting these entities, management believes that there is no significant risk of loss to the Company beyond the provisions already recorded.

Concentration risk

As of December 31, 2002 a significant portion of the Company's cash and cash equivalents (US$ 473 million) is held in Sberegatelnyi Bank of Russian Federation (Sberbank), one of the biggest Russian banks. Subsequently in 2003 the Company reduced its concentration in this bank. Except for this fact, management believes it has no concentrations of credit risk where there is a significant risk of loss to the Company beyond the provisions already recorded, provided that current economic conditions in the Russian Federation do not deteriorate.

Derivative activity

During 2002 the Company used derivative instruments qualified as cash flow hedges to reduce risk associated with the volatility of crude oil and petroleum products world prices. The Company does not enter into derivative transactions for speculative or trading purposes.

These instruments are intended to compensate for the difference between fixed price at the moment when the instruments are sold and actual selling price at the moment when physical quantities are shipped. The mechanism is working by repurchase of the instruments at flexible market price.

During 2002 the Company recognized related net losses of US$ 3 million included in other expenses, as a result of this activity. Cash flow hedges were recognized as effective in context of SFAS 133 "Accounting for derivative instruments and hedging activities". No ineffective portion was recognized in accordance with SFAS 133.

On the instruments unsettled as of December 31, 2002 the Company recognized other comprehensive loss in the amount of US$ 2 million, which is expected to be reclassified into the earnings in 2003.

18. Income Taxes

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

	2002	2001
Current income taxes	163,087	132,402
Deferred income taxes	-	1,720
Total provision for income taxes	163,087	134,122

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):

	2002	2001
Income before income taxes	1,324,537	1,439,396
Statutory income tax rate	24%	35%
"Expected" income tax expense	317,889	503,789
Add (deduct) tax effect of:		
Benefit of income taxed at lower rate	(263,522)	(450,924)
Minority interest effect on income	(2,375)	255
Change in valuation allowance	(1,610)	(44,244)
Permanent accounting differences	112,705	125,246
Income taxes	163,087	134,122
Effective tax rate	12%	9%

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 for the period ended December 31, 2002 and 2001 (in US$ thousands):

	2002	2001
Assets / (liabilities) arising from the tax effect of:		
Fixed assets	25,397	54,440
Long-term investments	-	(1,720)
Site restoration costs	37,707	10,273
	63,104	62,993
Valuation allowance for deferred tax assets	(63,104)	(64,713)
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$ 600 million (unaudited) over the next year at Noyabrsk and US$ 52 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, 2002, 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.

20. Related Party Transactions

OAO Moskovsky Neftepererabativaushiy Zavod (MNPZ)

During the year 2002 the Company processed 2.6 million tons of crude oil at MNPZ based on processing agreements. Total cost of processing for 2002 was US$ 32.9 million. The Company has US$ 6.6 million of net payable to MNPZ as of December 31, 2002. For the year 2001 there were no activities between the Company and MNPZ.

MNPZ shareholders meeting on May 21, 2003 approved dividends on preferred shares for 2002 with Sibneft’s respective portion in amount of US$ 0.7 million.

OAO NGK Slavneft (Slavneft)

During 2002 the Company had numerous activity with OAO NGK Slavneft. The Company sold crude to Slavneft in amount of US$ 104 million. The Company operated as an agent for crude and products export sales of Slavneft. The total amount of proceeds under the agent agreement is US$ 176 million and US$ 571 million for crude and products, respectively (in 2001 US$ 273 million and US$ 460 million, respectively). During 2002 and 2001 the Company earned US$ 4.4 million and US$ 4.0 million in commission fees related to this agent agreement. The Company has US$ 73 million and US$ 58 million of net payable to Slavneft as of December 31, 2002 and 2001, respectively.

21. Segment Information

Presented below is information about the Company's operating segments for the period ended December 31, 2002 and 2001. 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 2002 (in US$ thouthands):

	Exploration and Production	Manufacturing, Marketing and Distribution	Consolidated
Revenues			
Total	3,456,324	2,455,736	5,912,060
Inter-segment eliminations	(1,135,369)	-	(1,135,369)
Outside	2,320,955	2,455,736	4,776,691
Operating income	870,177	522,898	1,393,075
Capital expenditures, net	623,381	336,051	959,432
Depreciation, depletion and amortization	193,296	216,737	410,033
Interest income	9	8,866	8,875
Interest expense	3,653	120,302	123,955
Share in the net income of equity investees	-	148,187	148,187
Income tax expense	15,274	147,813	163,087
Investment in equity method investees	475,482	683,282	1,159,064
Total assets	4,039,177	3,509,279	7,548,456

Operating Segments 2001 (in US$ thousands):

	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
Interest income	69	662	731
Interest expense	2,328	45,615	47,943
Share in the net income of equity investees	-	128,764	128,764
Income tax expense	2,666	131,456	134,122
Investment in equity method investees	398,930	531,959	930,889
Total assets	2,990,116	2,722,680	5,712,796

22. Subsequent Events

In December 2002 the Company won the auction for 74.95 percent interest in AO NGK Slavneft, a medium size vertically integrated Russian oil and gas company for US$ 1,860 million. The Company participate in the auction through an investment vehicle, a Russian company ZAO Invest-Oil, owned jointly by Sibneft and TNK. In January 2002 the Company paid US$ 930 million for its 50% portion of the auction price through ZAO Invest-Oil. During 2003 Sibneft and TNK agreed to jointly manage the refineries of Slavneft group and work out the split of upstream assets and petroleum stations.

In December 2002 the Belorassian Government held an auction for it's 10.8 percent interest in AO NGK Slavneft. The Company, acting jointly with TNK, was the winning bidder for the total consideration of US$ 207.6 million. The Company paid US$ 103.8 million for its 50% portion of the auction price in January 2003.

In May 2003 YUKOS and Sibneft core shareholders announced that they have agreed in principle to combine the two businesses in the largest-ever industrial transaction in Russia. The core shareholders of Sibneft will sell a 20% shareholding in Sibneft for US$ 3 billion in cash and subsequently exchange their remaining shareholding in Sibneft (up to 72%) at a ratio of 0.36125% of YukosSibneft (up to 26.01%) for each 1% shareholding in Sibneft. YukosSibneft will make a fair offer to the minority shareholders of Sibneft after receiving a fairness opinion from an internationally recognized investment bank. The Share Purchase and Share Exchange are currently scheduled for completion on December 31, 2003. Completion of both the Share Purchase and the Share Exchange is subject to the satisfaction of a number of conditions including shareholder and regulatory approvals and completion of due diligence by both parties. In case of agreement termination the terminating party has an obligation to pay to another party US$ 1 billion.

In April 2003 the Company sold all its interest in ONAKO and Orenburgneft to a third party for US$ 825 million. Proceeds were fully collected in April 2003. Carrying value of the investment at the moment of sale was US$430 million.

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

As required by SFAS NO. 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 period ended December 31, 2002 and 2001, respectively (in US$ thousands):

	2002	2001
Capitalized costs of proved oil and gas properties	8,203,778	7,599,995
Capitalized costs of unproved oil and gas properties	81,914	18,049
Total capitalized costs of oil and gas properties	8,285,692	7,618,044
Less: Depreciation, depletion and amortization	(4,934,156)	(4,770,204)
Total net capitalized costs of oil and gas properties	3,351,536	2,847,840

	2002	2001
Costs incurred in oil and gas properties acquisitions, exploration and development activities		
Exploration costs	78,657	39,268
Development costs	559,516	359,837
Total costs incurred in oil and gas properties acquisitions, exploration and development activities	638,173	399,105

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 NO. 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 period ended December 31, 2002 and 2001, respectively (in US$ thousands).

	2002	2001
Revenues from net production		
Sales	2,061,871	1,303,010
Transfers (1)	807,710	932,255
Total revenues	2,869,581	2,235,265
Operating expenses	335,159	255,950
Exploration expenses	14,792	21,220
Depreciation, depletion and amortization	388,786	284,729
Taxes, other than income tax	609,160	142,210
Pretax income from producing activities	1,347,896	1,531,156
Income tax expenses	78,836	137,804
Results of oil and gas producing activities	1,442,848	1,393,352

Proved Oil and Gas Reserve Quantities

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Management believes that proved reserves should include quantities, which are expected to be produced after the expiry dates of the Company's production licenses. These licenses expire between 2013 and 2022, with the most significant licenses expiring between 2013 and 2014. Management believes the licences may be extended at the initiative of the Company and management intends to extend such licenses for properties expected to produce subsequent to their license expiry dates. The Company has disclosed information on proved oil and gas reserve quantities and standardized measure of discounted future net cash flows for the periods up to the license expiry dates.

Proved developed reserves are those reserves, which are expected to be recovered through existing wells with existing equipment and operating methods. 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.

"Net" reserves exclude quantities due to others when produced.

The below reserve quantities include 100 percent of the net reserve quantities attributable to the Company's consolidated subsidiaries.

The prices used in the forecast of future net revenues are the year-end weighted average of the prices received for sales domestically, for exports to CIS countries and for exports to non-CIS countries. Due to the absence of a developed market for crude oil in Russia, the Company employs a "net-back" method to estimate a price for transfer.

As determined by the Company's independent reservoir engineers, Miller and Lents, the following information presents the balances of proved oil and gas reserve quantities as of December 31, 2002. The definitions used are in accordance with applicable United States Securities and Exchange Commission ("SEC") regulations.

Net proved reserves of crude oil are presented below in millions of barrels.

	2002 (in millions of barrels)
Proved Reserves at December 31, 2002	2,129
Minority's share included in the above proved reserves	(63)
Proved reserves, adjusted for minority interest	2,066
Proved developed reserves	1,793
Proved developed reserves, adjusted for minority interest	1,783

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 Company's expected future cash flows or of the value Company'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 Company's future cash flows or of the value of its oil and gas reserves.

	2002 (in US$ thousands)
Future cash inflows	28,204,228
Future production and development costs	(12,756,729)
Future income tax expenses	(2,853,601)
Future net cash flows	**12,593,898**
Discount of estimated timing of cash flows	(5,063,635)
Discounted future net cash flows	7,530,263