AO SIBERIAN OIL COMPANY

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2003 AND 2002
TOGETHER WITH REPORT OF INDEPENDENT AUDITORS

AO Siberian Oil Company

Audited Consolidated Financial Statements

Years ended December 31, 2003 and 2002

Contents

Report of Independent Auditors

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, 2003 and 2002, and the related consolidated statements of income and comprehensive income, changes in shareholders’ equity 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.

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

As further discussed in Note 19, the Ministry on Taxes and Levies of the Russian Federation is currently conducting a tax audit of the Company and a subsidiary for 2000 and 2001. The Company has not received the final results of the tax audit and therefore, we were unable to obtain sufficient audit evidence to assess the impact on the accompanying financial statements.

We did not audit the Company's equity earnings from its investment in Slavneft for the year ended December 31, 2003 totaling approximately US$ 468 million and included in “Income from equity affiliates” in the accompanying financial statements.

In our opinion, except for the effects of such adjustments and disclosures, if any, as might have been determined to be necessary had we been able to obtain audit evidence related to the tax audit and conducted an audit of the equity earnings as explained in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and subsidiaries as of December 31, 2003 and 2002, 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 of America.

As further described in Note 23, the Company has not disclosed the required information related to its equity investment in an oil and gas producing entity. Such information is required under Statement of Financial Accounting Standards No.69 "Disclosures about Oil and Gas Producing Activities", which the Financial Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

June 30, 2004

As of December 31, 2003 and 2002 Currency – US$ thousands

	Notes	2003	2002
Assets			
Current assets:			
Cash and cash equivalents	3	$ 104,594	$ 620,875
Loans receivable	4	43,709	48,668
Accounts receivable, net (less allowance for doubtful accounts of $79,439 and $65,620, respectively)	5	1,321,407	1,356,787
Inventories	6	287,203	322,340
Prepaid expenses		26,528	31,167
Total current assets		1,783,441	2,379,837
Long-term investments	7	1,921,221	1,159,064
Oil and gas properties, net	8	3,748,650	3,351,536
Property, plant and equipment, net	9	521,221	501,876
Construction in progress	10	170,508	145,344
Other non-current assets		4,979	10,799
Total assets		$ 8,150,020	$ 7,548,456
Liabilities and shareholders' equity			
Current liabilities:			
Short-term loans	11	$ 64,871	$ 148,301
Accounts payable and accrued liabilities	12	679,968	625,679
Related party payable	20	166,936	80,518
Income and other taxes	13	188,977	134,173
Other current liabilities		101,303	22,260
Current portion of long -term debt	15	303,427	430,414
Total current liabilities		1,505,482	1,441,345
Dividends payable		92,707	367
Asset retirement obligation	14	193,297	157,113
Long-term debt	15	1,221,014	1,658,079
Minority interest		-	-
Total liabilities		3,012,500	3,256,904
Commitment and contingencies	19		
Shareholders' equity:			
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	2	1,867,449	1,867,449
Retained earnings		2,411,703	1,565,068
Accumulated other comprehensive loss		(2,238)	(1,571)
Total shareholders' equity		5,137,520	4,291,552
Total liabilities and shareholders' equity		$ 8,150,020	$ 7,548,456

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

AO Siberian Oil Company
Consolidated Statements of Income and Comprehensive Income
For the years ended December 31, 2003 and 2002 Currency – US$ thousands

	Notes	2003	2002
Revenues			
Refined products and oil and gas sales		$ 6,590,419	$ 4,710,679
Other		126,121	66,012
Total		6,716,540	4,776,691
Costs and other deductions			
Operating expenses		1,786,227	1,205,368
Selling, general and administrative		1,024,648	819,708
Depreciation and amortization		492,472	410,033
Taxes other than income taxes		1,423,383	896,995
Exploratory expenses		53,885	14,792
Cost of other sales		91,268	36,720
Total		4,871,883	3,383,616
Operating income		1,844,657	1,393,075
Other income / (expense)			
Income from equity affiliates	7	528,873	148,187
Income from sales of equity investees		384,758	-
Interest received		12,097	8,875
Interest paid		(187,989)	(123,955)
Other expenses, net		(172,856)	(115,231)
Minority interest		-	9,896
Foreign exchange gain		52,670	3,690
Total		617,553	(68,538)
Income before provision for income taxes and cumulative effect of a change in accounting principle		2,462,210	1,324,537
Provision for income taxes	18	183,828	163,087
Net income before cumulative effect of a change in accounting principle		$ 2,278,382	$ 1,161,450
Cumulative effect of a change in accounting principle, net of tax		-	(939)
Net income		2,278,382	1,160,511
Other comprehensive loss, net	17	(667)	(1,571)
Total comprehensive income		$ 2,277,715	$ 1,158,940
Basic and Diluted Earnings per Common Share			
Net income before cumulative effect of a change in accounting principle		$ 0.4805	$ 0.2450
Cumulative effect of a change in accounting principle, net		$ -	$ (0.0002)
Basic and Diluted Earnings per Common Share		$ 0.4805	$ 0.2448
Average number of common shares outstanding (millions)		4,741	4,741

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

For the years ended December 31, 2003 and 2002 Currency – US$ thousands

	Common Stock	Additional Paid-in Capital	Reserves	Retained Earnings	Accumulated Other Comprehensive Loss
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)
Net income for the year	-	-	-	2,278,382	-
Common stock dividends	-	-	-	(1,431,747)	-
Other comprehensive loss, net	-	-	-	-	(667)
Balance at December 31, 2003	$ 1,619	$ 858,987	$ 1,867,449	$ 2,411,703	$ (2,238)

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

For the years ended December 31, 2003 and 2002 Currency – US$ thousands

	2003	2002
Operating activities		
Net income	$ 2,278,382	$ 1,160,511
Reconciliation of net income to net cash provided by operating activities:		
Effect of change in accounting principle	-	939
Accrued equity accounting income	(253,658)	(9,328)
Depreciation, depletion and amortization	492,472	410,033
Asset retirement obligation accretion expenses	12,755	11,637
Loss on disposal of property, plant and equipment	22,728	19,939
(Gain)/loss on sales of investments	(384,758)	3,319
Impairment of goodwill	-	20,466
Minority interest	-	(9,896)
Changes in current assets and liabilities:		
Accounts receivable	21,561	(610,204)
Provision for doubtful accounts	13,819	19,211
Inventories	35,137	(89,464)
Prepaid expenses	4,639	(26,586)
Other non-current assets	5,820	3,121
Accounts payable and accrued liabilities	140,707	411,635
Income and other taxes	54,804	(6,488)
Other current liabilities	79,043	(22,832)
Net cash provided by operating activities	2,523,451	1,286,013
Investing activities		
Investments made	(1,087,624)	(243,738)
Loans redemption	4,959	250,608
Acquisition of shares in subsidiaries	(31,317)	(20,176)
Proceeds from investments sales	999,017	22,098
Proceeds from disposals of property, plant and equipment	46,850	18,596
Capital expenditures	(984,728)	(959,432)
Net cash used in investing activities	(1,052,843)	(932,044)
Financing activities		
Net increase/(decrease) in short-term loans	(210,417)	263,851
Net increase/(decrease) in long-term debt	(437,065)	1,049,746
Dividends paid	(1,339,407)	(1,098,340)
Net cash (used in)/provided by financing activities	(1,986,889)	215,257
Increase/(decrease) in cash and equivalents	(516,281)	569,226
Cash and equivalents at beginning of year	620,875	51,649
Cash and equivalents at end of the period	$ 104,594	$ 620,875
Supplemental disclosures of cash flow information		
Cash paid for interest (net of amount capitalized)	$ 171,783	$ 75,044
Cash paid for income taxes	$ 136,241	$ 173,719

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

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.

Under Russian legislation, natural resources, including oil, gas, precious metals and minerals and other commercial minerals situated within the territory of the Russian Federation are the property of the State. The Law of the Russian Federation No. 2395-1, "On Subsurface Resources", regulates relations arising in connection with the geological study, use and protection of subsurface resources within the territory of the Russian Federation. Pursuant to the Law, subsurface resources may be developed only on the basis of a license. The license is issued by the regional governmental body and contains information on the site to be developed, the period of activity, financial and other conditions. The Company holds multiple licenses issued by Regional authorities in areas where its subsidiaries are located.

The Company sells its crude oil under general rules of export quotation applicable for all Russian oil producers. Under the general rules the export quotas for Transneft pipeline system is defined and approved by the Energy Commission of the Russian Government based on the legislation on equal access to the oil pipeline system. In 2003 and 2002 the Company's export sales (including sales to other CIS countries and export bypassing Transneft pipeline system) have approximated 51% and 46% of production, respectively. The remaining production was processed at the Company's refineries and other Russian refineries for further sales on the domestic and international markets. Generally, export sales result in a higher net realized price than Russian domestic sales after considering related transportation and export duties and other charges.

Russian Business Environment

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 included high 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. In addition law and regulations, including interpretations, enforcement and judicial processes, continue to evolve in Russia. Among many elements of legal rights, obligations and restrictions: matters pertaining to mineral rights, environmental protection, property abandonment, transportation and exportation, corporate governance, taxation and others continue to have a significant influence on the Company's industry. The continued success and stability of the Russian business environment 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 and Euro, play a significant role in the underlying economics of many business transactions in Russia. For the oil and gas sector in particular, substantial export arrangements as well as investing and financing activities are conducted in hard currencies such as the US dollar.

The Central Bank of Russia has established strict currency control regulations for managing ruble supply and demand and available hard currencies. Such regulations place restrictions on the conversion of rubles into hard currencies and establish requirements for conversion of hard currency sales to rubles. While in recent years conversion requirements have been reduced, such matters continue to be a substantial consideration for many companies in managing currency risks.

The Company conducts a substantial portion of its commercial activities using US dollar denominated contracts. In addition, substantial financing and investing activities, obligations and commitments are also based on the US dollar. However, many operating and investing expenditures, as well as taxation and statutory actions are conducted in rubles. As a result of this and currency controls, the Company's principal currency risk relates to the fluctuations of US dollars to rubles, as well as maintaining hard currency to pay its US dollar denominated obligations. The Company attempts to manage these risks through maintaining certain levels of product exports and is contractually obligated to do so under certain of its financing agreements.

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 and taxation principles and practices mandated by the Russian legislation. The accompanying consolidated financial statements were derived from the Company's Russian Statutory books and records with adjustments and reclassifications made to present them in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

The accompanying financial statements differ from the financial statements issued for statutory purposes in Russia in that they reflect certain adjustments, not recorded in the Company's books, which are appropriate to present the financial position, results of operations and cash flows in accordance with US GAAP. The principal adjustments relate to: (1) revenue recognition; (2) recognition of interest expense and other operating expenses; (3) valuation and depreciation of property, plant and equipment; (4) foreign currency translation; (5) deferred income taxes; (6) valuation allowances for unrecoverable assets; (7) accounting for the time value of money; (8) accounting for investments in oil and gas property and conveyances; (9) consolidation principles; (10) recognition and disclosure of guarantees, contingencies, commitments and certain rights and obligations.

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. All significant intercompany balances and liabilities have been eliminated. While the Company is not subject to the full provisions of Financial Interpretation ("FIN") No. 46 "Consolidation of Variable Interest Entities" it does consider in its consolidation principles whether the Company in substance controls certain legal entities.

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. Certain significant estimates and assumptions for the Company include: recoverability and lives of long-term assets and investments; provisions for uncollectible accounts receivable; asset retirement obligations; legal and tax contingencies; environmental remediation obligations; recognition and disclosure of guarantees and other commitments. Management believes it has a reasonable and appropriate basis for its judgment pertaining to its estimates and assumptions. However, actual results could differ from those estimates.

Foreign Currency Translation

On November 25, 2002, the American Institute of Certified Public Accountants ("AICPA") International Practices Task Force concluded that Russia would no longer be considered a highly inflationary economy for the purposes of Statement of Financial Accounting Standard ("SFAS") No. 52 effective January 1, 2003. Accordingly, the Company re-assessed its functional currency and determined that US dollar will continue to be used as the functional currency for the purposes of US GAAP financial statements effective January 1, 2003. Since the US Dollar was the functional currency for prior years, the change from the hyperinflation status did not have a significant effect in comparability.

Since the Company's books of record are maintained in Rubles, it must remeasure those balances under SFAS 52. Monetary assets and liabilities have been translated into US dollars at the exchange rate at balance sheet date. Non-monetary assets and liabilities have been translated at historical rates. Data on revenues, expenses, and cash flows are translated into US dollars at historical exchange rates prevailing on the transactions dates. Gains and losses resulting from the remeasurement into US dollars are included in the consolidated statement of income.

As of December 31, 2003 and 2002, the official rates of exchange were 29.45 rubles = US$1 and 31.78 rubles = US$1, respectively.

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 export of crude oil and oil products 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 materials and supplies, crude oil and petroleum products, 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, 2003, no write down was required for the period ended December 31, 2003.

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

December 31, 2003 and 2002 Currency – US$ thousands

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	25-35 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.

Exploration and Development Assets - The recoverability of oil and gas properties, net of accumulated depreciation, is assessed whenever events or circumstances indicate a potential impairment. Such assessment includes comparison of the book value of oil and gas properties with estimated non-discounted future cash flows before tax.

Revenues used in calculating future cash flows before tax are determined based on selling prices paid by end users and oil and gas reserves. Such forecasts might differ from SFAS No. 69 disclosure due to permitted differences in assumptions. The test is performed for each extraction division, which is generally the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets.

Refining, Marketing and Distribution – The recoverability of these assets are generally evaluated based on the evaluation of cash flows on the basis of key operating unit, generally legal entities. Because the assets of this segment (particularly the refining units) are largely an integrated set of operations, recognition of this condition is considered in evaluating a particular units value or utilization to generating other cash flows.

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 2003 and 2002, interest capitalized related to capital projects amounted to US$ 9.4 million and US$ 10.4 million, respectively.

December 31, 2003 and 2002 Currency – US$ thousands

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. The actual ruble denominated balance attributable to minority interests may differ from this amount.

Minority owners' interest in the Company's subsidiaries, is as follows:

	December 31, 2003		December 31, 2002	
	Voting	Total	Voting	Total
Geofizika	19%	19%	6%	19%
Meretoyahaneftegas	33%	33%	33%	33%
Sibneft-Ugra	1%	1%	50%	50%

As Geofizika did not declare dividends over recent years preferred shares were granted voting rights in accordance with Geofizika's Charter documents.

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 the local accounting principles at a rate of 24% , as of December 31, 2003 and 2002, after adjustments for certain items which are not deductible for taxation purposes, and after consideration of different tax credits.

Deferred income taxes are determined using the liability approach in accordance with SFAS No. 109, "Accounting for Income Taxes". This method gives consideration to the future tax consequences based on the effective tax rate associated with differences between the financial reporting and tax basis of assets and liabilities and gives immediate income statement effect to changes in income tax laws, including changes in the tax rates. A valuation allowance is recorded to reduce deferred tax assets when management believes 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, 2003 and 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. 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.

Recognition of Revenues

Revenues are recognized when title passes to the customer, the selling price is fixed or determinable and collectibility is reasonably assured. Specifically, domestic crude oil sales and petroleum product and materials sales are recognized when they are shipped to customers, which is generally when title passes. For export sales, title generally passes at the border of the Russian Federation and the Company is responsible for transportation, duties and taxes on those sales.

Other revenues consist primarily of sales of services and utilities and are recognised when goods are provided to customers and services are performed providing that the price for the service can be determined and no significant uncertainties regarding realization exist.

Revenues are stated net of VAT and excises on the oil products.

Transportation costs

The Company incurred US$ 628 million and US$ 400 million on delivering of crude oil and refined products to its customers for the years ended December 31, 2003 and 2002, 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.

Recent Accounting Standards

In 2003, the Financial Accounting Standards Board ("FASB") issued and revised FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). FIN 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 immediately for any entity created after December 31, 2003. For all other entities the standard must be applied by the beginning of the first annual period beginning after March 15, 2004. Presently the Company is reviewing its financial relations to determine any variable interest entities.

In 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. This Statement is effective for contracts entered into or modified after June 30, 2003, except as stated below and for hedging relationships designated after June 30, 2003. The statement did not have a material effect on the financial statements.

In 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatory redeemable financial instruments of nonpublic entities. The Company will adopt SFAS No. 150 in 2004 and does not anticipate that adoption of SFAS No. 150 will have a material effect on its financial statements.

Change in Accounting Policy

Effective January 1, 2002 the Company early adopted the provisions of SFAS No. 143, "Accounting for Asset Retirement Obligations" as required to be adopted by 2003. This Standard is applicable to the liabilities from legal obligations related to the retirement of long-term tangible assets upon expiry of their useful life. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.

The initial adoption resulted in an after-tax charge of approximately US$ 1 million, which was recorded as a cumulative effect of a change in accounting principles. In 2002 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.

3. Cash and Cash Equivalents

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

	2003	2002
Cash in bank – rubles	32,832	43,297
Cash in bank – foreign currency	71,636	577,516
Cash on hand	126	62
Total cash and cash equivalents	104,594	620,875

4. Loans Receivable

The Company provided ruble loans to third parties with the maturity of one month to one year and bearing weighted average interest 9.9% 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):

	2003	2002
Trade receivables	755,177	753,214
Advances paid to suppliers	279,253	351,748
Value added tax receivable	315,053	222,715
Other	51,363	94,730
Less allowance for doubtful accounts	(79,439)	(65,620)
Total accounts receivable	1,321,407	1,356,787

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):

	2003	2002
Crude oil	30,326	48,409
Petroleum products	81,962	79,290
Materials and supplies	149,459	164,869
Other	25,456	29,772
Total inventories	287,203	322,340

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, 2003 and 2002 (in US$ thousands):

	2003	2002
Investments in Russian companies		
- Oil and gas producing	1,510,431	475,482
- Refining	293,490	263,529
- Marketing	105,792	89,969
- Investment trust	-	227,057
- Other	11,508	29,624
Other long-term investments	-	73,403
Total long-term investments	1,921,221	1,159,064

Included in oil and gas producing associated companies, as of December 31, 2003 is a 49.716% interest in AO NGK Slavneft. In 2002 the Company owned 6.59 % of AO NGK Slavneft and various minority stakes in Slavneft' subsidiaries through investment trust arrangement.

In December 2002 the Company won the auction for 74.95 percent interest in AO NGK Slavneft 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-BP. In January 2003 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, which was not completed as of December 31, 2003.

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.

The total cost of these investments is US$ 1,261 million and US$ 227 million as of December 31, 2003 and 2002, respectively. Based on financial statements and management estimates the Company's share of Slavneft' earnings for 2003 amounted to US$ 468 million and is reflected in income from equity affiliates. During 2003 Slavneft announced and paid to the Company US$ 219 million of dividends.

December 31, 2003 and 2002 Currency – US$ thousands

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

	2003
Total assets	1,947,180
Total liabilities	457,505
Net Income	467,774

During 2003 the Company received earnings distribution from ONAKO group equal to US$ 56 million and recorded in income from equity affiliates. In April 2003 the Company sold its interest in ONAKO for US$ 826 million and realized US$ 385 million gain on the sale of the investment. Proceed for investments sale were fully collected in 2003.

Investments in refining consist of a 38.5% voting interest in Moscow Oil Refining Plant (MNPZ). In 2003 the Company acquired 1.8% voting interest for the total consideration of US$ 25 million. Based on financial statements and management estimates the Company's share of MNPZ's earnings for 2003 amounted to US$ 5.4 (US$ 9.3 million in 2002) and is reflected in income from equity affiliate.

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

	2003	2002
Total assets	120,212	115,676
Total liabilities	17,519	27,244
Net Income	5,464	9,328

Investments in marketing companies include various wholesale and retail distribution companies. During 2003 the Company acquired additional voting stake of 5% in OAO Mosnefteproduct for the total consideration of US$ 20 million. Total cost of investment equals US$ 56 million for 25.5% voting interest (US$ 36 million for 20,5% voting interest in 2002). The other retail distribution companies are not individually material.

In October 2003 The Company sold its 50% share in an equity investee, which owned 30% share interest in a major Russian utility company for net book value of US$ 58 million.

Acquisition of Additional Shares in Subsidiaries

In September 2003 the Company purchased 100% interest in ZAO Archinskoe, a small exploration and production company, developing 2 oil fields in Western Siberia, for the total consideration of US$ 26.0 million.

In September 2003 the Company purchased 100% interest in OOO Shinginskoe, a small exploration and production company, developing an oil field in Western Siberia, for the total consideration of US$ 2.1 million.

In December 2003 the Company increased its share in Sibenft–Ugra up to 99% for the nominal consideration.

8. Oil and Gas Properties

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

	2003	2002
Oil and gas properties	8,896,871	8,285,692
Less: Depreciation, depletion and amortization	(5,148,221)	(4,934,156)
Total oil and gas properties, net	3,748,650	3,351,536

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 2050. During 2003 management was successful in extending several licences and 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):

	2003	2002
Buildings	1,383,222	1,240,688
Machinery and equipment	1,076,909	1,087,382
Vehicles and other equipment	69,743	69,050
	2,529,874	2,397,120
Less: Accumulated depreciation	(2,008,653)	(1,895,244)
Total property, plant and equipment, net	521,221	501,876

10. Construction in Progress

Construction in progress includes various construction projects and machinery and equipment delivered but not yet installed. As of December 31, 2003, detail of construction in progress is as follows (in US$ thousands):

	Construction Work in Progress	Machinery / Equipment To be installed	Total
Buildings	14,437	-	14,437
Plant and machinery	54,486	-	54,486
Vehicles and other equipment	32,255	69,330	101,585
Total	101,178	69,330	170,508
Comparative balance at December 31, 2002	78,852	66,492	145,344

11. Short-Term Loans

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

	2003	2002
Banks	62,037	119,207
Related parties	2,755	25,427
Other	79	3,667
Total	64,871	148,301

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, 2003 more than 97% of the loans were provided in US$. At December 31, 2003 the Company has a US$ 20 million unsecured loan outstanding from BNP Paribas Bank Moscow. The loan bears a floating interest at rate of LIBOR plus 2.1%.

At December 31, 2003 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 2.1%.

At December 31, 2003 the Company has a US$ 20 million unsecured loan outstanding from ABN Amro Bank. The loan bears a floating interest at rate of LIBOR plus 2.0%.

At December 31, 2003 the Company has an unsecured loan from MDM-BANK repayable in rubles amounting to US$ 2 million. The loan bears an interest at rate of 20%.

In addition the Company has a number of loans from Noyabrskneftecombank repayable in rubles amounting in total to US$ 2.8 million. These loans bear interest at rates from 16.5% to 18%.

As of December 31, 2002 the structure of short-term loans was as following. The Company had three bank loans outstanding from Raiffeisenbank. These loans totaled to US$ 91 million and bore floating interest at rate of LIBOR plus 5.42%. These loans were secured by crude and products export proceeds.

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

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

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

Excluding the Noyabrskneftecombank loan related party debt was 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, 2003 for US$ and ruble denominated loans equal 5.4% and 18.5% respectively. During the year ended December 31, 2003, the weighted average US$ and ruble denominated short-term debt balances outstanding were US$ 315 million and US$ 1 million, respectively, with weighted average interest rates of 5 and 18 percent, respectively. 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.

12. Accounts Payable and Accrued Liabilities

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

	2003	2002
Trade accounts payable	648,565	608,285
Other accounts payable	31,403	17,394
Total accounts payable	679,968	625,679

13. Income and Other Taxes

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

	2003	2002
Value added tax	78,700	50,617
Mineral extraction tax	73,056	-
Excise tax	15,455	55,630
Income tax	9,762	9,455
Property tax	9,061	6,258
Road users tax	-	8,144
Other	2,943	4,069
Total income and other taxes payable	188,977	134,173

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 Company has potential asset retirement obligations associated with the conduct of its business activities. The nature of the assets and potential obligations are as follows:

Exploration and Production

The Company's field exploration, development, and production activities includes assets related to: well bores and related equipment and operating sites, gathering and oil processing systems, oil storage and pipelines to main transportation trunks. Generally, its licenses and other operating permits require certain actions to be taken by the Company in the abandonment of these operations after the end of production. Such actions include well abandonment activities, equipment dismantlement and other reclamation activities. The Company's estimates of future abandonment costs consider present regulatory or license requirements and are based upon management's experience of the costs and requirement of such activities.

Refining, Marketing and Distribution

This business segment covers refining operations and retail networks. The Company's refining operations consist of major industrial complexes. These industrial complexes have been in operation for several decades. Because of the nature of the operation of these complexes, management believes that these industrial complexes have indeterminable lives, while certain operating components and equipment have definite lives.

Management believes that present regulatory and permitting activities do not stipulate an obligation associated with abandoning these industrial complexes. As a result, the Company believes that it does not have clear or definitive legal or contractual obligations associated with activities to retire or otherwise abandon those assets.

Inasmuch as the regulatory and legal environment in Russia continues to evolve, there could be future changes to the requirements and costs associated with abandoning long-lived assets.

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

	2003	2002
Beginning balance as of January 1,	157,113	144,242
Revision in the estimated cash flows	19,517	-
Liabilities incurred in the current period	1,683	1,233
Liabilities on new companies	2,229	-
Accretion expense	12,755	11,638
Ending balance as of December 31,	193,297	157,113

15. Long-Term Debt

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

	2003	2002
Bank loans outstanding	564,962	1,128,264
Bonds	942,462	922,088
Other borrowings	17,016	38,139
Less current portion of long- term debt	(303,426)	(430,412)
Total long-term debt	1,221,014	1,658,079

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, 2003 from Raiffeisen Zentralbank Oesterreich (RZB), Westdeutsche Landesbank Vostok (West LB), ABN-Amro bank and BNP Paribas S.A., and two unsecured loans from Salomon Brothers. As of December 31, 2002 the Company has secured bank loans outstanding 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. The bonds have a semi-annual coupon. An accrued interest for the bonds in amount of US$ 24.8 million is accounted in current portion (US$ 3.9 million as of December 31, 2002).

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$ 17.6 million is accounted in current portion (US$ 18.2 million as of December 31, 2002).

The Company has a US$ 233.8 million (including US$ 117.1 million of current portion) secured loan from West LB maturing in December 2005 bearing floating interest at rates of LIBOR plus 2.15%. This loan is secured by Noyabrsk export proceeds. As of December 31, 2002 the Company had two secured US$ loans from West LB totaling US$ 441.0 million that consisted 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 were secured by Noyabrsk export proceeds.

The Company has a US$ 128.6 million (including US$ 64.3 million of current portion) secured loan from RZB maturing in December 2005, bearing floating interest at rates of LIBOR plus 3.25%. As of December 31, 2002 the Company had a US$ 150.3 million (including US$ 21.4 million of current portion) secured loan from RZB due December 2005, bearing floating interest at rates of LIBOR plus 3.25%.

The Company has a US$ 136.4 million (including US$ 13.1 million of current portion) secured loan from BNP Paribas S.A. maturing in June 2007, bearing floating interest at rates of LIBOR plus 3.0%. As of December 31, 2002 the Company had 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%.

The Company has a US$ 66.2 million (all in 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%. As of December 31, 2002 the Company had 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%.

Also as of December 31, 2002 the Company had two secured US$ loans from Societe Generale S.A. totalling to US$ 198.2 million that consisted 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 were secured by Noyabrsk export proceeds.

Other long-term debt represents a number of US dollars and ruble denominated unsecured borrowings from non-banking organizations totaling US$ 17.0 million (including US$ 0.3 million of current portion) with maturity dates from 2006 to 2011 bearing interest at rates from 17% to 24.6% on US$ denominated borrowings and nil on ruble denominated respectively. As of December 31, 2002 other long-term debt represented 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, 2003.

Maturities of long-term - loans as of December 31, 2003 are as follows (in US$ thousands):

Year due	Amount due
2004	303,426
2005	197,730
2006	-
2007	523,284
2008 and later	500,000
	1,524,440

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, 2003:

	Number of Shares (millions)	Ownership Percentage
Deutsche Bank (as nominee)	4,385	92.7814%
ZAO ING Bank (as nominee)	182	3.8465%
ZAO Brunsvick UBS (as nominee)	90	1.8952%
ABN AMRO Bank (as nominee)	23	0.4769%
Other investors	61	1.0000%
Total	4,741	100.0%

On September 15, 2003 at the Company's shareholder meeting intermediate dividends were approved by the shareholders for the 6 months ended June 30, 2003, amounting to 6.44 rubles per share. On November 11, 2003 at the Company's shareholder meeting intermediate dividends were approved by the shareholders for the 9 months ended September 30, 2003, amounting to 1.46 rubles per share. Total dividends declared by the Company for 2003 amounted to US$ 1,243 million.

The dividends amount declared by the Company for 2002 amounted to US$ 1,092 million, which equals to 7.22 rubbles per share.

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

17. Fair Value of Financial Instruments, Including Derivative Activity

Fair values

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.

Derivative activity

During 2003 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.

During 2003 the Company recognized related net losses of US$ 24 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, 2003 the Company recognized other comprehensive loss in the amount of US$ 0.7 million (US$ 1.6 million in 2002), which is expected to be reclassified into the earnings in 2004.

18. Income Taxes

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

	2003	2002
Current income taxes	183,828	163,087
Deferred income taxes	-	-
Total provision for income taxes	183,828	163,087

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):

	2003	2002
Income before income taxes	2,462,210	1,324,537
Statutory income tax rate	24%	24%
"Expected" income tax expense	590,930	317,889
Add (deduct) tax effect of:		
Benefit of income taxed at lower rate	(581,978)	(263,522)
Minority interest effect on income	-	(2,375)
Change in valuation allowance	(27,188)	(1,610)
Permanent accounting differences	202,064	112,705
Income taxes	183,828	163,087
Effective tax rate	7%	12%

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, 2003 and 2002 (in US$ thousands):

	2003	2002
Assets / (liabilities) arising from the tax effect of:		
Fixed assets	27,232	25,397
Assets retirement obligation	8,684	37,707
	35,916	63,104
Valuation allowance for deferred tax assets	(35,916)	(63,104)
Net deferred tax assets / (liabilities)	-	-

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

Tax audit

The tax authorities are currently reviewing the operation of the Company and its subsidiary for the years 2000-2001. The review is in process; the impact of the result of the tax review is not determinable, however the ultimate resolution of this matter could have a material impact on the Company's financial position, results of operations and cash flows. Management believes that all substantial operations of the Company and its major subsidiaries were performed within existing tax regulation and in full compliance with accounting and reporting requirements.

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 2004 for OR. The construction and exploration programs are subject to periodic reviews and actual expenditures may vary from the above estimates. At December 31, 2003, 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 Moscow Oil Refining Plant (MNPZ)

During the year 2003 the Company processed 2.8 million tons of crude oil (2.6 million ton in 2002) at MNPZ based on processing agreements. Total cost of processing for 2003 was US$ 41.0 million (US$ 32.9 million for 2002). The Company has US$ 0.3 million and US$ 6.6 million of net payable to MNPZ as of December 31, 2003 and 2002, respectively.

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. The dividends were fully collected in 2003.

Slavneft Group (Slavneft)

During 2003 the Company conducted numerous transactions with Slavneft group companies. The Company sold 2.8 million tons of crude oil (0.8 million tons in 2002) to Slavneft in amount of US$ 307 million (US$ 104 million in 2002). 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$ 1,085 million and US$ 830 million for crude and products, respectively (in 2002 US$ 176 million and US$ 571 million, respectively). During 2003 and 2002 the Company earned US$ 2.9 million and US$ 4.4 million in commission fees related to this agent agreement. Starting late December 2002 Sibneft started processing in Yaroslavl Oil Refining Plant (Slavneft's subsidiary) based on processing agreements. During the year 2003 the Company processed 1.1 million tons of crude oil (no crude processed in 2002) for the total cost of processing amounting to US$ 15.8 million. The Company has US$ 166 million and US$ 73 million of net payable to Slavneft as of December 31, 2003 and 2002, respectively.

21. Segment Information

Presented below is information about the Company's operating segments for the period ended December 31, 2003 and 2002. 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 2003 (in US$ thousands):

	Exploration and Production	Manufacturing, Marketing and Distribution	Consolidated
Revenues			
Total	5,020,232	3,302,058	8,322,290
Inter-segment revenues	(1,605,750)	-	(1,605,750)
Revenues from external customers	3,414,482	3,302,058	6,716,540
Operating income	944,625	900,032	1,844,657
Capital expenditures, net	684,124	300,604	984,728
Depreciation, depletion and amortization	259,232	233,240	492,472
Interest income	8	12,089	12,097
Interest expense	7,064	180,925	187,989
Share in the net income of equity investees	467,774	61,099	528,873
Income tax expense	6,814	177,014	183,828
Investment in equity method investees	1,510,431	410,790	1,921,221
Segment assets	4,672,701	3,477,319	8,150,020

Operating Segments 2002 (in US$ thousands):

	Exploration and Production	Manufacturing, Marketing and Distribution	Consolidated
Revenues			
Total	3,456,324	2,455,736	5,912,060
Inter-segment revenues	(1,135,369)	-	(1,135,369)
Revenues from external customers	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
Segment assets	4,039,177	3,509,279	7,548,456

22. Subsequent Events

In December 2003 the core shareholders of Sibneft and YUKOS agreed in principle to de-merge Sibneft from YUKOS. As a result of this transaction, the 92% equity interest in Sibneft presently held by YUKOS will be returned to the original core shareholders of Sibneft. The timing and mechanism of de-merge have not yet been determined.

On June 30, 2004 at the Slavneft's shareholder meeting, annual dividends were approved by the shareholders for the year ended December 31, 2003, amounting to 4.77 rubles per share or total dividends of US$ 781 million, of which US$ 219 million of intermediate dividends were accrued and collected by the Company during 2003.

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.

The supplemental disclosure below does not include the information required by SFAS No. 69 related to the Company's investment in Slavneft, which is accounted for by the equity method.

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, 2003 and 2002, respectively (in US$ thousands):

	2003	2002
Capitalized costs of proved oil and gas properties	8,804,178	8,203,778
Capitalized costs of unproved oil and gas properties	92,693	81,914
Total capitalized costs of oil and gas properties	8,896,871	8,285,692
Less: Accumulated depreciation, depletion and amortization	(5,148,221)	(4,934,156)
Total net capitalized costs of oil and gas properties	3,748,650	3,351,536

	2003	2002
Costs incurred in oil and gas properties acquisitions, exploration and development activities		
Exploration costs	45,094	78,657
Development costs	692,914	559,516
Total costs incurred in oil and gas properties acquisitions, exploration and development activities	738,008	638,173

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, 2003 and 2002, respectively (in US$ thousands).

	2003	2002
Revenues from net production		
Sales	2,971,324	2,061,871
Transfers	1,039,064	807,710
Total revenues	4,010,388	2,869,581
Production costs	412,779	335,159
Exploration expenses	53,884	14,792
Depreciation, depletion and amortization	475,107	388,786
Taxes, other than income tax	845,026	609,160
Pretax income from producing activities	2,223,592	1,521,684
Income tax expenses	97,931	78,836
Results of oil and gas producing activities	2,125,661	1,442,848

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, 2003 and 2002, respectively. 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.

	2003 (in millions of barrels)	2002 (in millions of barrels)
Proved Reserves at January 1,	2,129	2,325
Production	(234)	(196)
Purchase of reserves in place	57	-
Revision of previous estimates and improved recovery	414	-
Proved reserves at December 31,	2,366	2,129
Minority's share included in the above proved reserves	(6)	(63)
Proved reserves, adjusted for minority interest	2,360	2,066
Proved developed reserves	2,006	1,793
Proved developed reserves, adjusted for minority interest	2,005	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.

	2003 (in US$ thousands)	2002 (in US$ thousands)
Future cash inflows	41,292,722	28,204,228
Future production and development costs	(17,871,756)	(12,756,729)
Future income tax expenses	(4,356,761)	(2,853,601)
Future net cash flows	19,064,205	12,593,898
Future net cash flow 10% annual discount for estimated timing of cash flow	(7,934,694)	(5,063,635)
Standardized measure of discounted future net cash flows	11,129,511	7,530,263

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

	2003 (in US$ thousands)
Discounted present value as of beginning of year	7,530,263
Sales and transfers of oil and gas produced, net of production costs and taxes other than income taxes	(2,223,590)
Extension, discoveries and changes in estimates	4,311,319
Changes in future development costs	(1,123,707)
Development costs incurred during the period	738,008
Revisions of previous quantity estimates	3,164,397
Net change in income taxes	341,693
Accretion of discount	1,038,386
Purchase of new oil and gas properties	9,936
Other	(2,657,194)
Discounted present value as of end of year	11,129,511