

AO SIBERIAN OIL COMPANY

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2002 AND 2001**

AO Siberian Oil Company
Consolidated Statements of Operations
For six months ended June 30, 2002 and 2001
(Thousands of US Dollars)

	<u>Notes</u>	<u>2002</u>	<u>2001</u>
<i>Revenues</i>			
Refined products and oil and gas sales		\$ 1 917 961	\$ 1 599 067
Other		66 345	64 031
Total		<u>1 984 306</u>	<u>1 663 098</u>
<i>Expenses</i>			
Production costs		479 904	302 402
Selling, general and administrative		312 345	176 092
Cost of other sales		41 359	41 207
Depreciation, depletion and amortization		181 077	175 678
Exploratory expenses		-	5 834
Taxes other than income taxes		364 629	267 040
Total		<u>1 379 314</u>	<u>968 253</u>
Operating income		<u>604 992</u>	<u>694 845</u>
<i>Other income / (expense)</i>			
Interest received and other income		5 054	434
Interest paid and other expense		(24 691)	(30 348)
Other non-operating expense, net		(50 798)	7 816
Minority interest		2 287	(3 011)
Currency translation (loss) gain		(13 227)	13 925
Total		<u>(81 375)</u>	<u>(11 184)</u>
Income before provision for income taxes		523 617	683 661
Provision for income taxes		<u>66 145</u>	<u>67 780</u>
Net profit		<u>\$ 457 472</u>	<u>\$ 615 881</u>
Net profit per common share (dollars)		<u>\$ 0,0965</u>	<u>\$ 0,1902</u>
Average number of common shares outstanding (millions)		<u>4 741</u>	<u>3 238</u>

AO Siberian Oil Company
Consolidated Balance Sheets
As of June 30, 2002 and 2001
(Thousands of US Dollars)

	<u>Notes</u>	<u>2002</u>	<u>2001</u>
Assets			
Current assets:			
Cash and equivalents		\$ 98 333	\$ 59 953
Loans receivable	3	290 854	72 169
Accounts receivable, net (less allowance of doubtful accounts of \$41,294 and \$42,616 respectively)		945 088	984 422
Inventories, net		282 788	238 274
Prepaid expenses		16 116	12 256
Total current assets		1 633 179	1 367 074
Investments	4	1 226 574	629 037
Net oil and gas properties		3 027 003	2 627 998
Net property, plant and equipment		490 853	371 626
Construction in progress		143 282	166 634
Other noncurrent assets		5 237	6 783
Total assets		\$ 6 526 128	\$ 5 169 152
Liabilities and Shareholders' Capital			
Current liabilities:			
Short-term loans	5	\$ 439 496	\$ 533 410
Accounts payable and accrued liabilities		326 547	308 786
Income and other taxes		167 237	157 949
Other current liabilities		15 836	15 695
Total current liabilities		949 116	1 015 840
Dividends payable		3 201	618 859
Site restoration costs	6	82 030	72 621
Long-term debt	7	997 574	270 877
Minority interest		-	23 498
Total liabilities		2 031 921	2 001 695
Shareholders' capital:			
Common stock		1 619	1 619
Additional paid -in capital		858 987	845 498
Treasury Stock		-	(541 713)
Reserves		1 867 449	1 867 449
Retained earnings		1 766 152	994 604
Total shareholders' capital		4 494 207	3 167 457
Total liabilities and shareholders' capital		\$ 6 526 128	\$ 5 169 152

AO Siberian Oil Company
Consolidated Statement of Cash Flows
For six months ended June 30, 2002 and 2001
(Thousands of US Dollars)

	<u>2002</u>	<u>2001</u>
<i>Operating activities</i>		
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 457 472	\$ 615 881
Depreciation, depletion and amortization	181 077	175 678
Loss/(gain) on disposal of fixed assets	28 333	(5 433)
Loss/(gain) on sales of investments	82	(12)
Interest expenses on Runicom Loan		11 749
Minority interest	(2 287)	3 011
Changes in current assets and liabilities:		
(Increase) in accounts receivable	(174 179)	(544 593)
Increase/(decrease) in provision for doubtful accounts	(5 115)	8 866
(Increase) in inventories	(49 912)	(69 157)
(Increase)/decrease in prepaid expenses	(11 535)	2 569
(Increase)/decrease in other noncurrent assets	(378)	2 142
Increase/(decrease) in accounts payable and accrued liabilities	31 985	(74 142)
Decrease in income and other taxes	26 576	118 651
Increase/(decrease) in other current liabilities	(29 256)	1 241
Net cash provided by operating activities	<u>452 862</u>	<u>246 451</u>
<i>Investing activities</i>		
Purchase of investments	(311 240)	(148 523)
Acquisition of shares in subsidiaries	(19 753)	(11 178)
Proceeds from investments sales	16 642	157
Proceeds from fixed assets disposals	16 122	15 554
Capital expenditures	(430 431)	(219 597)
Net cash used in investing activities	<u>(728 660)</u>	<u>(363 588)</u>
<i>Financing activities</i>		
Increase in short-term loans	124 632	128 385
Increase in long-term debt	389 241	71 599
Dividends paid	(191 383)	(49 971)
Net cash used in financing activities	<u>322 490</u>	<u>150 013</u>
Increase in cash and equivalents	46 684	32 867
Cash and equivalents at beginning of period	51 649	27 086
Cash and equivalents at end of period	<u>\$ 98 333</u>	<u>\$ 59 953</u>

1. General

Basis of Financial Statements Preparation

These unaudited consolidated financial statements should be read in the context of the consolidated financial statements and notes thereto as of December 31, 2001. In the opinion of the Company, the information furnished reflects all known accruals and adjustments necessary for a fair statement of the result for the periods reported herein. All such adjustments are of a normal recurring nature. The Company's exploration and production activities are accounted for under the "successful efforts" method.

Acquisitions of Subsidiaries

In April 2002, the Company acquired a 59% interest in NK Meretoyahaneftegas for US\$ 20 million. This company is involved in exploration and production in Yamalo-Nentsk autonomous region. For the purpose of consolidated financial statements this acquisition resulted in goodwill of US\$ 20 million written to other expenses.

In March 2002, the Company acquired a 50% interest in Sibneft -Chukotka for its nominal value US\$ 1 thousand. This company was created in 2001 by Sibneft and Chukotka region administration and is used for exploration and production in Chukotka region. For the purpose of consolidated financial statements this acquisition resulted in negative goodwill of US\$ 625 thousand, which has been allocated against oil and gas properties.

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:

	<u>June 30, 2002</u>		<u>June 30, 2001</u>	
	<u>Voting</u>	<u>Total</u>	<u>Voting</u>	<u>Total</u>
Geofizika	19%	19%	19%	19%
Omsky Bacon	-	-	46%	46%
Sibneft-Ugra	50%	50%	-	-
Meretoyahaneftegas	41%	41%	-	-

The changes in minority interest percentage is due to sale of the Company's stake in Omsky Bacon and acquisition of Meretoyahaneftegas and Sibneft- Ugra as noted above.

2. Significant accounting policies

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, for the period ended June 30, 2002 and 2001, respectively, after adjustments for certain items which are not deductible for taxation purposes, and after consideration of different tax credits.

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Notes to the Consolidated Financial Statements
June 30, 2002 and 2001

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. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

New Accounting Standards yet to be Adopted

SFAS 143 is required to be adopted by the Company no later than January 1, 2003 and its primary impact will be to change the method of recognizing upstream site restoration costs. These costs are currently accrued ratably over the productive lives of the assets. At June 30, 2002 the cumulative amount accrued under this policy was approximately US\$ 82 million. Under SFAS 143, the fair value of the asset retirement obligation will be recorded as liabilities when they arise, which are typically at the time the assets are installed. The amount recorded for the related assets will be increased by the amount of these obligations. Over time liabilities will be adjusted for the change in their present value and the initial capitalized costs will be depreciated over the useful life of the related assets.

3. 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.

4. 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 for the period June 30, 2002 and 2001 (in US\$ thousands):

Name	2002	2001
Investments in Russian companies		
- Oil and gas producing	430,387	490,343
- Refining	254,206	-
- Marketing	79,672	37,568
- Investment trust	76,347	76,347
- Other	4,892	24,779
Other long-term investments	381,070	-
Total long-term investments	<u>1,226,574</u>	<u>629,037</u>

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Included in oil and gas producing associated companies as of June 30, 2002 is a 26% (2001 - 30%) interest in the common stock and a 12% (2001 -12%) interest in the preferred stock of Orenburgneft and a 1%*¹ (2001 - 1%) interest in the common stock of ONAKO. The total costs for these investments are US\$ 430 million and US\$ 476 million, as of June 30, 2002 and 2001, respectively. Orenburgneft is a consolidated subsidiary of ONAKO. The initial interests were acquired in December 2000. In December 2001, the Company sold a 4.2% interest in the common stock of Orenburgneft for US\$ 52 million resulting in US\$ 6 million gain. The Company exercises significant influence by controlling three out of nine positions on the board of directors on ONAKO. The Company's equity share in earnings of these investments for 2002 and 2001 was not significant.

Investments in refining companies consists of a 37% interest in Moskovsky Neftepererabativaushiy Zavod (MNPZ) acquired during November 2001, for US\$ 254 million. US GAAP financial information is not currently available for MNPZ and hence it has not been possible for management to determine the difference between the carrying value of the investment in MNPZ and the Company's share of net assets. Based on Statutory financials the Company's share of MNPZ's earnings since acquisition to June 30, 2002, is not material.

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

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

During 2002, the Company made a US\$ 313 million advance payment to a third party to acquire a significant share stake in a Russian oil and gas company on behalf of Sibneft.

5. Short-Term Loans

As of June 30, the Company had short-term loans outstanding as follows (in US\$ thousands):

	2002	2001
Banks	353,467	506,562
Related parties	27,586	6,004
Other	58,443	20,844
Total	<u>439,496</u>	<u>533,410</u>

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

In general, short-term loans are used for the provision of working capital needs. As of June 30, 2002 more than 89 % of loans were provided in US\$. The Company had two bank loans outstanding as of June 30, 2002 from Raiffeisenbank. The short-term loans from Raiffeisenbank total to US\$ 102 million and bear floating interest at rates from LIBOR plus 3.8% to LIBOR plus 4.5%. These loans are secured by Noyabrsk export proceeds.

At June 30, 2002 the Company had two loans from Citibank. The loans total to US\$ 95 million and bear interest at rate of LIBOR plus 3,25%. Loans are secured by Noyabrsk export proceeds.

* In notes to the audited Consolidated Financial Statements for the year ended December 31, 2001 there was a typing error (3% instead of 1%).

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At June 30, 2002 the Company also had a US\$ 20 million loan outstanding from Westdeutsche Landesbank Vostok. The loan is secured by Noyabrsk export proceeds and bears a floating interest at rate of LIBOR plus 5%.

In addition the Company had one ruble and two dollar denominated loans from Doveritelny Investitsionny Bank amounting to US\$ 40 and US\$ 70 million, respectively. Ruble loan bears 19% interest. Dollar loans bear interest from 7 to 11,25%. All loans are unsecured.

Significant borrowing from a non-banking organization outstanding as of June 30, 2002 is represented by US\$ 51 million, a loan from Specfinance. This loan is granted to settle trade purchases and bears no interest.

Related party borrowing outstanding as of June 30, 2002 is represented by US\$ 21 million loans from shareholders. These loans are granted for working capital purposes and bear no interest.

Weighted average interest rates related to the short-term loans outstanding as of June 30, 2002 for US\$ and ruble denominated loans equal 7% and 16%, respectively (9% and 7%, respectively for June 30, 2001). During 6 months ended June 30, 2002, the weighted average US\$ and ruble denominated short-term debt balances outstanding were US\$ 176 million and US\$ 22 million, respectively, with weighted average interest rates of 8 and 13 percent, respectively. During six months of 2001, the weighted average US\$ and ruble denominated short-term debt balances outstanding were US\$ 421 million and US\$ 16 million, respectively, with weighted average interest rates of 9 and 24 percent, respectively.

6. Site Restoration Costs

Future site restoration costs represent the estimated future cost to abandon wells and production facilities. As of June 30, 2002 and 2001 management estimates of these costs were US\$ 216 million and US\$ 227 million, respectively. During 2002 and 2001, the Company has included US\$ 6 million and US\$ 6 million, respectively, of such costs as components of depreciation, depletion and amortization expense.

The Company has estimated its liability based on site restoration costs incurred during 2002 and 2001 and will continue to update its estimates in the future. However, Russian environmental regulations and their enforcement can have a significant impact on these costs and, as governmental authorities are continually considering such regulations, the future costs associated with these liabilities may differ from the recorded amounts.

7. Long-Term Debt

As of June 30, the Company had outstanding loans as follows (in US\$ thousands):

	<u>2002</u>	<u>2001</u>
Bank loans	987,970	80,000
Other	9,604	190,877
Total long-term debt	<u>997,574</u>	<u>270,877</u>

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 June 30, 2002 from Societe Generale S.A, ABN-Amro Bank and BNP Paribas S.A., and one unsecured loan from Salomon Brothers.

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Two US\$ loans from Societe Generale S.A. totaling to US\$ 283 million consist of US\$ 75 million due April 2003, bearing floating interest at rates of LIBOR plus 4.5% and US\$ 208 million due May 2005, bearing floating interest at rates of LIBOR plus 3.8%.

In January 2002, the Company placed US\$ 250 million 5-year Eurobonds on the Luxemburg Stock Exchange. The bonds bear interest at 11,5% per year. Subsequently, in March 2002, the Company increased the issue up to US\$ 400 million. All bonds have a semi-annual coupon.

The Company has a US\$ 50 million loan from BNP Paribas S.A. due February 2003, bearing floating interest at rates of LIBOR plus 3.25%.

The Company has a US\$ 255 million loan from ABN Amro Bank repayable in rubles at the rate of exchange as of the date of payment. The loan is due August 2004 and bears floating interest at rates of LIBOR plus 3.75%.

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 not more than 55% of consolidated 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 June 30, 2002.

Runicom Loan

In December 2000, the Company received an interest free loan of US\$ 224,734 thousand from Runicom Ltd, a shareholder. The loan was originally scheduled to be repaid in August 2002 and was initially recorded at its present value of US\$ 187,528 thousand. The benefit of US\$ 37,206 thousand was credited to Additional Paid-In Capital. Loan amortization for six months 2001 equaled US\$ 3,349 thousand.

In November 2001, Sibneft repaid the loan in full.

Maturities of long-term bank loans as of June 30, 2002 are as follows (in US\$ thousands):

<u>Date due</u>	<u>Bank</u>	<u>Amount due</u>
February 2003	BNP Paribas S.A.	50,000
April 2003	Societe Generale S.A.	75,000
August 2004	ABN Amro	255,278
May 2005	Societe Generale S.A.	207,692
May 2007	Salomon Brothers	400,000
		<u>987,970</u>

8. Segment Information

Presented below is information about the Company's operating segments for the period ended June 30, 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:

	Exploration and Production	Marketing and Distribution	Consolidated
Revenues			
Total	2,304,601	1,071,886	3,376,487
Inter-segment eliminations	(1,392,181)	-	(1,392,181)
Outside	912,420	1,071,886	1,984,306
Operating income	377,165	227,827	604,992
Capital expenditures, net	262,265	168,166	430,431
Depreciation, depletion and amortization	79,444	101,633	181,077
Total assets	3,625,528	2,900,600	6,526,128

Operating Segments 2001:

	Exploration and Production	Marketing and Distribution	Consolidated
Revenues			
Total	1,722,692	1,091,721	2,814,413
Inter-segment eliminations	(1,151,315)	-	(1,151,315)
Outside	571,377	1,091,721	1,663,098
Operating income	271,866	422,979	694,845
Capital expenditures, net	113,636	85,961	219,597
Depreciation, depletion and amortization	96,657	79,021	175,678
Total assets	2,935,857	2,233,295	5,169,152