AO SIBERIAN OIL COMPANY

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2000 AND 1999
TOGETHER WITH
REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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 as of December 31, 2000 and 1999, and the related consolidated statements of operations, changes in shareholders' capital and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AO Siberian Oil Company and subsidiaries as of December 31, 2000 and 1999, 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.

ARTHUR ANDERSEN ZAO

Moscow, Russia
April 30, 2001

AO Siberian Oil Company

Consolidated Statements of Operations

For the years ended December 31, 2000 and 1999

(Thousands of US Dollars)

	Notes	2000	1999
Revenues			
Refined products and oil and gas sales		$ 2 344 453	$ 1 694 478
Processing fee		12 181	3 720
Other		41 288	48 250
Total		2 397 922	1 746 448
Expenses			
Production costs		899 819	784 060
Selling, general and administrative		182 160	128 570
Cost of other sales		23 901	41 684
Depreciation, depletion and amortization		300 000	289 805
Exploratory expenses		4 779	10 562
Maintenance and repairs		6 105	16 869
Taxes other than income taxes		253 741	217 554
Total		1 670 505	1 489 104
Operating income		727 417	257 344
Other income / (expense)			
Interest received and other income		990	488
Interest paid and other expense		(11 364)	(21 771)
Other non-operating expense, net		(35 103)	(30 428)
Minority interest		61 549	89 666
Currency translation (loss) gain		9 721	28 304
Total		25 793	66 259
Income before provision for income taxes		753 210	323 603
Provision for income taxes	17	78 365	8 497
Net profit		$ 674 845	$ 315 106
Net profit per common share (dollars)		$ 0,2084	$ 0,0665
Average number of common shares outstanding (millions)		3 238	4 741

AO Siberian Oil Company
Consolidated Balance Sheets
As of December 31, 2000 and 1999
(Thousands of US Dollars)

	Notes	2000	1999
Assets			
Current assets:			
Cash and equivalents	3	$ 27 086	$ 15 731
Short-term investments		7 988	5 165
Accounts receivable, net (less allowance of doubtful accounts of $33,750 and $33,639 respectively)	4	448 695	326 405
Inventories, net	5	169 117	123 669
Prepaid expenses		14 825	1 561
Total current assets		667 711	472 531
Investments	6	533 556	18 062
Net oil and gas properties	7	2 719 285	2 732 378
Net property, plant and equipment	8	472 339	877 675
Construction in progress	9	170 753	171 952
Other noncurrent assets		8 925	7 354
Total assets		$ 4 572 569	$ 4 279 952
Liabilities and Shareholders' Capital			
Current liabilities:			
Short-term loans	10	$ 405 025	$ 61 741
Accounts payable and accrued liabilities	11	382 928	177 148
Income and other taxes	12	39 298	49 953
Other current liabilities		14 454	12 441
Current portion of long term debt		-	150 000
Total current liabilities		841 705	451 283
Dividends payable		$ 50 683	$ -
Site restoration costs	13	66 194	57 767
Long-term debt	14	187 528	-
Long-term taxes payble		-	16 075
Minority interest		256 734	704 857
Total liabilities		1 402 844	1 229 982
Shareholders' capital:			
Common stock	15	1 619	1 619
Additional paid -in capital	15	845 498	808 292
Treasury Stock	15	(541 713)	-
Reserves		1 867 449	1 867 449
Retained earnings		996 872	372 610
Total shareholders' capital		3 169 725	3 049 970
Total liabilities and shareholders' capital		$ 4 572 569	$ 4 279 952

AO Siberian Oil Company

Consolidated Statement of Cash Flows

For the years ended December 31, 2000 and 1999

(Thousands of US Dollars)

	2000	1999
Operating activities		
Reconciliation of net income to net cash provided by operating activities:		
Net income	$ 674 845	$ 315 106
Depreciation, depletion and amortization	300 000	289 805
Loss on disposal of fixed assets	1 654	44 306
Loss on sales of investments	7 029	18 237
(Decrease)/increase in long term taxes payable	(16 075)	4 942
Minority interest	(61 549)	(89 666)
Changes in current assets and liabilities:		
(Increase)/decrease in accounts receivable	(122 401)	79 343
Increase/(decrease) in provision for doubtful accounts	111	(21 158)
(Increase) in inventories	(45 448)	(7 200)
(Increase)/decrease in prepaid expenses	(13 264)	316
(Increase) in other noncurrent assets	(1 571)	(1 144)
Increase/(decrease) in accounts payable and accrued liabilities	205 780	(167 409)
Decrease in income and other taxes	(10 655)	(92 728)
Increase/(decrease) in other current liabilities	2 013	(3 374)
Net cash provided by operating activities	920 469	369 376
Investing activities		
Purchase of investments	(543 745)	(8 700)
Acquisition of shares in subsidiaries	(17 160)	-
Proceeds from investments sales	9 154	-
Proceeds from fixed assets disposals	34 473	-
Capital expenditures	(230 935)	(120 402)
Net cash used in investing activities	(748 213)	(129 102)
Financing activities		
Increase/(decrease) in short-term loans	343 284	(258 630)
Increase in long-term debt	37 528	-
Treasury stock purchase	(541 713)	
Net cash used in financing activities	(160 901)	(258 630)
Increase/(decrease) in cash and equivalents	11 355	(18 356)
Cash and equivalents at beginning of year	15 731	34 087
Cash and equivalents at end of year	$ 27 086	$ 15 731
Supplemental disclosures of cashflow information		
Cash paid for interest	$ 26 130	$ 19 695
Cash paid for income taxes	$ 73 983	$ 9 778

AO Siberian Oil Company
Statement of Changes in Shareholders' Capital
For the years ended December 31, 1998, 1999 and 2000
(Thousands of US Dollars)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Reserves	Retained Earnings
Balance at December 31, 1998	$ 1 604	$ -	$ -	$ 1 867 449	$ 57 504
Share emmision in March 1999	$ 15	$ 808 292			
Net income for the year					$ 315 106
Balance at December 31, 1999	$ 1 619	$ 808 292	$ -	$ 1 867 449	$ 372 610
Treasury stock purchase			$ (541 713)		
Net income for the year					$ 674 845
Benefit from Runicom Ltd. loan		$ 37 206			
Common stock dividends					$ (50 583)
Balance at December 31, 2000	$ 1 619	$ 845 498	$ (541 713)	$ 1 867 449	$ 996 872

1. The Company

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. Historically, Noyabrsk had close business relationships with both Geofizika and OR, while OR had close business links not only with Noyabrsk but also Nefteprodukt. The consolidation of these companies under Sibneft's control has had a significant impact on the method of operation of each of the companies.

Economic Conditions in Russia

During recent years, Russia has undergone substantial political, economic and social change. As an emerging market, Russia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature free market economy. As a result, operations carried out in Russia involve significant risks that are not typically associated with those in developed markets. Instability in market reform could subject the Company to unpredictable changes in the basic business infrastructure under which it currently carries out its operations. Uncertainties regarding the political, legal, tax or regulatory environment, including the potential for adverse changes in any of these factors could significantly affect the Company's ability to operate commercially. Changes that may occur or the resulting effect of any such changes on the Company's financial condition or future results of operations are not estimable.

Prior to August 17, 1998, the ruble corridor (in reference to its exchange for US$) was set between 5.27 rubles per US dollar and 7.13 rubles per US dollar. On August 17, 1998, due to the burden of short-term debt and falling Central Bank reserves, the Russian government withdrew its support for the falling ruble. As of December 31, 2000 and 1999 the exchange rate was 28.16 and 27.00 rubles to US$ 1, respectively. Subsequent to the year-end the exchange rate has continued to fall. As of April 30, 2001, the exchange rate was 28.83 rubles to US$ 1.

The Company and its subsidiaries will continue to be affected, for the foreseeable future, by Russia's unstable economy. As a result, there are significant uncertainties that may affect future operations, the recoverability of the Company's assets, and the ability of the Company to maintain or pay its debts as they mature. Continued economic instability in Russia could significantly affect the Company's ability to obtain permanent or term financing under commercially viable terms.

During 2000, the Company received, relatively, high world market prices for crude and the company's exports equaled 33% of crude production and 15% of product sales (compared to 31% and 23% in 1999, respectively). In order to maximize the benefit of the Ruble devaluation, Management's strategy has been to reduce costs in US$ terms, when commercially possible to levels significantly below pre-crisis expenditures in order to sustain a long term competitive advantage from the re-alignment of the currency.

Establishment of Prices

Prior to 1995, the Russian government determined the domestic price for the sale of crude oil that was significantly lower than the price for which the same crude could be sold on the world market. In 1995, the government withdrew its price control of domestic crude allowing the price to increase. During 2000, the Company's domestic crude and refined product prices were approximately 15% and 74% of the respective world market price for equivalent crude and refined products (18% and 76%, respectively, during 1999). In addition, the amount of oil that Noyabrsk is allowed to export is also limited by government restrictions.

Significant business transactions

For tax and cash flow optimization purposes, the Company uses third party intermediaries in its refining and distribution process. As a consequence of transactions with these intermediaries the Company has incurred expenses of $791 million ($552 million during 1999). These expenses include transportation costs and various turnover and profit taxes paid by of the intermediaries. For the purposes of these consolidated financial statements, these separate transactions have been grouped together in accordance with their substance as one transaction.

2. Summary of Significant Accounting Policies

Form and Content of the Consolidated Financial Statements

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

The financial statements presented herein have been reformatted for international presentation from the Russian statutory financial statements of the Company and its subsidiaries for the years ended December 31, 2000 and 1999 and adjusted to comply with US GAAP. All significant intercompany transactions have been eliminated in the preparation of these financial statements.

Principles of Consolidation

The consolidated financial statements include the operations of all significant 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.

As further discussed in Note 7, the Company has interests in various Russian legal entities, which are accounted for using the cost method.

Common Stock

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

Reserves and Retained Earnings

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

Management Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheet as well as the revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Foreign Currency Translation

Translation (remeasurement) of the Company's ruble denominated financial statements into US$ has been performed in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation", as they relate to hyperinflationary economies. The objective of this remeasurement process is to produce the same results that would have been reported if the accounting records had been kept in US$. In 2000, 1999 and 1998, Russia experienced cumulative inflation in excess of 100 percent over a three-year period, as determined by government statistics.

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

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

Cash and Cash Equivalents

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

Inventories

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

Oil and Gas Properties

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

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

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

In accordance with SFAS 121 "Accounting for Impairment of Long-Lived Assets to Be Disposed Of", the Company assesses impairment of long-lived assets to be held and used by comparing the carrying value against the projection of undiscounted net future pre-tax cash flows. For oil and gas properties, the test is performed on a field-by-field basis. Where an assessment indicates impairment in value, the oil and gas properties are written down to their fair value, as determined by the projection of discounted net future pre-tax cash flows. Oil and gas reserves for this purpose have been determined in accordance with the Society of Petroleum Engineers of the United States' definitions and were independently estimated by Miller and Lents, Ltd. As a result of this evaluation, no writedown was required for the years ended December 31, 2000 or 1999.

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

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

Property, Plant and Equipment

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

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

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

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

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

As with oil and gas properties, significant property, plant and equipment have been evaluated in accordance with SFAS 121. As a result of this evaluation, no writedown was required for the year ended December 31, 2000 or 1999.

The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance 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, including the estimated future costs to develop proved reserves, is provided on the unit-of-production method based on the ratio of current year production to total estimated future production from proved developed reserves.

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

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

Refinery Shutdown Costs

Major maintenance costs that extend the useful life of the refinery are capitalized and depreciated over that 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 2000, interest related to the capital projects was capitalized amounting to US$ 20 million.

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 determine 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, 2000		December 31, 1999	
	Voting	Total	Voting	Total
Noyabrsk	3%	3%	6%	6%
OR	13%	13%	33%	44%
Geofizika	19%	19%	33%	33%
Nefteprodukt	6%	6%	23%	42%
Omsky Bacon	46%	46%	-	-

The reduction in minority interest percentages during 1999 and 2000 resulted from the Company's acquisition of additional shares in subsidiaries (see Note 6) accounted for using the purchase method.

Income Taxes

The Company is not subject to taxation on a consolidated basis. Current income taxes are provided on the accounting profit as determined under RAR at a rate of 30% percent, for the year ended December 31, 2000 and 1999, after adjustments for certain items which are not deductible for taxation purposes, and after consideration of capital investment tax credits.

The accompanying consolidated financial statements reflect deferred income taxes of the Company and its subsidiaries using the asset and liability method, which requires that deferred tax assets and liabilities be recorded for the expected future tax consequences of existing differences between financial reporting and tax reporting bases of assets and liabilities, and loss or tax credit carryforwards (see Note 17).

Comprehensive Income

The Company adopted SFAS No. 130, "Reporting Comprehensive Income," effective January 1, 1998. This statement establishes standards for the reporting and display of comprehensive income (net income plus all other changes in net assets from non-owner sources) and its components in financial statements. For the years ended December 31, 2000 and 1999, comprehensive income equaled net income.

Earnings per share

Earnings per common share have been determined using the weighted average number of shares outstanding during the year. Treasury shares are not considered to be outstanding for the purpose of such determination. There are no potentially dilutive securities.

Fair value of financial instruments

The carrying amount of all significant financial instruments approximates fair value. SFAS No. 107, "Disclosure about Fair Value of Financial Instruments," defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The Company has significant trade and other accounts receivable for which a reasonable approximation of fair value is not practical. Management expects such receivables, net of allowances for doubtful accounts, to be settled as more fully described in Note 4.

As discussed in Note 6, the Company has investments in certain Russian companies. There are no quoted market prices for these instruments and a reasonable estimate of fair value could not be made without incurring excessive costs.

Accounting for Contingencies

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

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

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

Revenue

Noyabrsk follows the policy of recognizing sales when its produced oil and gas enters the transportation network and the Company no longer has a title.

Petroleum product sales are recognized when finished products are shipped to customers.

Revenues are stated net of taxes and customs duties.

Retirement and Other Benefit Obligations

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

New Accounting Standards

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) 133, Accounting for Derivative Instruments and Hedging Activities. SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific accounting criteria are met. If a derivative instrument qualifies for hedge accounting, the gains or losses from the derivative may offset results from the hedged item in the statement of operations or other comprehensive income, depending on the type of hedge. To adopt hedge accounting, a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

In June 2000, the Financial Accounting Standards Board issued SFAS 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities. This Statement addresses a limited number of issues causing implementation difficulties for numerous entities that apply SFAS 133 and this Statement amends the accounting and reporting standards of SFAS 133 for certain derivative instruments and certain hedging activities.

SFAS 137 delayed the effective date of SFAS 133 to fiscal years beginning after June 15, 2000. A company may implement the statements as of the beginning of any fiscal quarter after issuance; however, SFAS 133 cannot be applied retroactively.

Management does not expect the adoption of SFAS 133, SFAS 137, and SFAS 138 to have a material impact on the financial position or the results of operations of the Company.

3. Cash and Cash Equivalents

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

	2000	1999
Cash in bank – rubles	6,731	5,491
Cash in bank – hard currency	12,767	5,969
Cash equivalents	7,546	4,242
Cash on hand	42	29
Total cash and cash equivalents	27,086	15,731

As of December 31, 2000 and 1999 the Company had a balance of US$ 127 thousand and US$ 4 thousand, respectively with Noyabrskneftecombank, a related party (12% ownership).

4. Accounts Receivable

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

	2000	1999
Trade receivables	298,505	214,132
Advances paid to suppliers	79,877	24,059
Value Added Tax receivable	57,242	71,895
Other	46,821	49,958
Less allowance for doubtful accounts	(33,750)	(33,639)
Total	448,695	326,405

In prior years, and due to government involvement in the subsidiaries, organizations in certain sectors of the economy were supplied with product irrespective of their ability to make repayments. Significant market reforms within Russia have reduced the availability of budgetary funds to many governmental and recently privatized enterprises. These budget deficits have further hindered the ability of large industrial and governmental organizations to make payment to suppliers on a timely basis.

For many industrial customers, amounts due can be offset against payables for services received. In order to further reduce a portion of the risk associated with customer non-payments, in certain circumstances, arrangements have been negotiated whereby payment is made in goods and services that are utilized in core business activities, promissory notes and government securities.

Management has provided a general 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.

5. Inventories

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

	2000	1999
Crude oil	13,365	22,010
Petroleum products	33,336	49,436
Materials and supplies	88,905	36,865
Other	33,511	15,358
Total	169,117	123,669

6. Long-Term Investments

The Company owns equity interests in various Russian entities. US GAAP requires that investments in entities not controlled by the holding company, but in which the holding company's ownership percentage is greater than 20 percent, be accounted for using the equity method and that investments in entities controlled by the holding company be consolidated.

None of the companies listed below are traded on the Russian Stock Exchange 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 value. The significant equity and other long-term investments in Russian companies are summarized below as of December 31, 2000 and 1999 (in US$ thousands):

Name	Nature of Business	Ownership Percentage at December 31, 2000	2000	Ownership Percentage at December 31, 1999	1999
AO Orenburgneft	Oil & gas	40%	429,982	-	-
ONAKO	Oil & gas	1%	45,861	-	-
Stavropolneftegas	Oil & gas	27%	14,500	-	-
AO Sverdlovsknefteproduct	Marketing	15%	26,266	-	-
AO Ekaterinburgnefteproduct	Marketing	48%	8,479	-	-
Other		-	8,468	-	18,062
			533,556		18,062

Acquisition of Orenburgneft and ONAKO

During December 2000, the Company acquired a 40% interest in Orenburgneft for US$ 430 million paid in cash, and a 1% interest in Orenburgneft's parent company, ONAKO for US$ 46 million paid in cash, which was accounted for using the purchase method. These investments together will be accounted for using the equity method.

Acquisition of Subsidiary

During 2000, the Company acquired a new subsidiary, Omsky Bacon, a food processing company, located in Omsky region, for US$ 2 million. For consolidation purposes this acquisition was accounted for using the purchase method and resulted in negative goodwill of US$ 19 million, which has been allocated against property, plant and equipment acquired.

Acquisition of Additional Shares in Subsidiaries

During 1999, the Company acquired additional shares in Noyabrsk, Geofizika, OR and Nefteprodukt from various minority shareholders. The additional shares in Noyabrsk and Geofizika were acquired through a "share swap" of five percent of newly issued Sibneft ordinary shares, as described in Note 15. On April 26, 1999, the Federal Commission on Securities of the Russian Federation approved the swap of these 224,903,389 Sibneft shares for 35,632,410 shares of Noyabrsk (20,582,466 ordinary and 15,049,944 preferred) and 17,563 ordinary shares of Geofizika. The fair market value of this share swap has been estimated at US$ 808 million based on the estimated fair value of the share of net assets purchased rather than the quoted market price of Sibneft shares at the consummation date.

There is a significant difference between the fair market value of the swap and the quoted equities market value of the Sibneft shares issued, as Russian securities still do not reflect the full value of underlying assets. This difference is attributable to several factors including: the depressed state of the Russian equities markets subsequent to the economic crisis of 1998, as discussed above; the relative lack of liquidity in the trading of Sibneft shares on the Russian market; and a general discounting of minority holdings in major Russian corporate structures, as perceived by the market.

The difference between the nominal value of Sibneft's additional shares converted into dollars as of the date of the issue (US$ 15 thousand) and the fair market value was been recorded as Additional Paid-In Capital. This share swap had the effect of reducing the Company's minority interest payable by approximately US$ 1,106 million, resulting in negative goodwill of approximately US$ 298 million which has been set-off, in consolidation, against oil and gas properties and property, plant and equipment (see notes 7 and 8).

The additional shares in OR and Nefteprodukt were purchased by the Company in August 1999 for total consideration of US$ 6 million. This acquisition has the effect of reducing the Company's minority interest payable by approximately US$ 219 million, resulting in negative goodwill of approximately US$ 213 million which has been set-off, in consolidation, against property, plant and equipment (see note 8).

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

7. Oil and Gas Properties

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

	2000	1999
Oil and gas properties	7,422,671	7,333,117
Less: Depreciation, depletion and amortization	(4,703,386)	(4,600,739)
Net oil and gas properties	2,719,285	2,732,378

In connection with the increase in the Company's ownership percentage in Noyabrsk charter capital, a reduction in net oil and gas properties of US$ 78 million (US$ 296 million for 1999) has been made on consolidation (see Note 6). The depreciation charge for the year was US$ 103 million (US$125 million for 1999).

8. Property, Plant and Equipment

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

	2000	1999
Buildings	1,138,894	1,109,301
Machinery and equipment	1,151,425	1,441,211
Vehicles and other equipment	73,103	90,841
	2,363,422	2,641,353
Less: Accumulated depreciation	(1,891,083)	(1,763,678)
Net property, plant and equipment	472,339	877,675

In connection with the increase in the Company's ownership percentage in Geofizika, OR and Nefteprodukt charter capital and the acquisition of Omsky Bacon, a reduction in net property, plant and equipment of US$ 329 million (US$ 213 million in 1999) has been made on consolidation (see Note 6). The depreciation charge for the year was US$ 189 million (US$192 million for 1999).

9. Construction in Progress

Construction in progress includes various construction projects and machinery and equipment delivered but not yet installed. As of December 31, 2000, detail of construction in progress is as follows (in US$ thousands):

	Construction Work in Progress	Machinery/ Equipment To be Installed	Total
Buildings	71,042	-	71,042
Plant and machinery	62,890	18,217	81,107
Vehicles and other equipment	18,604	-	18,604
Total	152,536	18,217	170,753
Comparative balance at December 31, 1999	143,061	28,891	171,952

10. Short-term Loans

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

	2000	1999
Banks	348,355	55,894
Related parties	7,675	5,847
Other	48,995	-
Total	405,025	61,741

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. Related party loans as of December 31, 2000 consist of US$ 7,675 received from Noyabrskneftecombank and the interest rates on these loans range from 23% to 25%. Related party loans as of December 31, 1999 consist of US$ 5,847 received from Noyabrskneftecombank. The interest rates on these loans range from 50 to 53%.

In general, short-term loans are used for the provision of working capital needs. As of December 31, 2000 more than 88 percent of loans were provided in hard currency. The Company has three secured bank loans outstanding as of December 31, 2000 from “Natexis Banque Populaires”, “Westduetsche Landesbank Dusseldorf” and “Raiffeisenbank”. The short-term loan of US$ 135 million from “Natexis Banque Populaires” bears floating interest at rates of LIBOR plus 4.5%. The short-term loan of US$ 75 million from “Westduetsche Landesbank Dusseldorf bears floating interest at rates of LIBOR plus 5.0%. The short-term loan of US$ 20 million from “Raiffeisenbank” bears floating interest at rates of LIBOR plus 4.0%. All three loans are secured by Noyabrsk export proceeds.

Sibneft has also two loans from “Doveritelny Investitsiony Bank” of US$ 10 and 90 million. These balances are unsecured and bear interest at an annual rate of 11.5% and 14.0% respectively. The Company has another unsecured loan of US$ 10 million from “Vneshekonombank” bearing interest at an annual rate of 10.0%.

The only significant borrowing from a non-banking organization outstanding as of December 31, 2000 is represented by US$ 48.7 million, a loan from OOO Prizma-Service. This loan is granted to settle trade purchases and bears no interest.

Weighted average interest rates related to the short-term loans outstanding as of December 31, 2000 for hard currency and ruble denominated loans equal 12 percent and 0.1 percent, respectively (11 and 50 percent, respectively for December 31, 1999). During the year ended December 31, 2000, the weighted average hard currency and ruble denominated short-term debt balances outstanding were US$ 117 million and US$ 13 million, respectively, with weighted average interest rates of 9 and 23 percent, respectively. During 1999, the weighted average hard currency and ruble denominated short-term debt balances outstanding were US$ 99 million and US$ 14 million, respectively, with weighted average interest rates of 14 and 39 percent, respectively.

11. Accounts Payable and Accrued Liabilities

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

	2000	1999
Trade accounts payable	295,657	153,026
Other accounts payable	87,271	22,046
Accrued liabilities	-	2,076
Total	382,928	177,148

Included in other accounts payable are promissory notes the Company issues to settle debts in the ordinary course of business. Balances outstanding as of December 31, 2000 and 1999 are US$ 69,098 and US$ 14,791, respectively. Notes payable are issued at face value, are ruble denominated, bear no interest, are transferable from one party to another, and have maturities ranging from three to six months. The Company will still honor notes payable past their original maturity.

12. Income and Other Taxes

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

	2000	1999
Amounts falling due within one year		
Lubricant tax	(155)	(147)
VAT	15,357	2,029
Excise tax	10,390	7,548
Royalties	1,489	(963)
Road Users tax	1,479	1,943
Mineral Replenishment tax	8,172	1,956
Profits tax	(5,068)	(686)
Property tax	784	(2,322)
Other taxes payable	1,403	7,789
Fines, penalties and interest	5,447	32,806
Estimated income and other taxes payable	39,298	49,953
Amounts falling due after one year		
Long-term taxes payable (see below)	-	16,075

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

Generally, tax declarations remain open and subject to inspection for a period of three years. As of 31 December 2000, a substantial proportion of the tax declarations of the Company have been reviewed through to 1998. Management believes that the Company is in substantial compliance with the tax laws affecting its operations; however, the risk remains that the relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant. The fact that a year has been reviewed does not close that year, or any tax declaration applicable to that year, from further review during the three year period.

13. Site Restoration Costs

Future site restoration costs represent the estimated future cost to abandon wells and production facilities. As of December 31, 2000 and 1999 management estimates of these costs were US$ 247 million and US$ 149 million, respectively. During 2000 and 1999, the Company has included US$ 8.4 million and US$ 6.3 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 2000 and 1999 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.

14. Long-Term Debt

The long–term debt is represented by two loans from Runicom Ltd, a shareholder. These loans do not bear interest. The maturity date of these loans is August 1, 2002. The present value of the loans is US$ 187 million. The Company recognized the benefit of US$ 37 million which was credited to Additional Paid-in Capital.

15. Capitalization

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

The following comprises the share structure of the Company, as of December 31, 2000:

	Number of Shares (millions)	Ownership Percentage
National Deposit Center (as nominee)	999	21.1%
ABN AMRO Bank (as nominee)	928	19.6%
ING Bank ZAO (as nominee)	916	19.3%
Deutsche Bank (as nominee)	826	17.4%
OAO Western Siberian Depositary (as nominee)	324	6.9%
Runicom Ltd.	41	0.9%
Other investors	707	14.8%
Total	4,741	100.0%

On September 29, 1998, the Company issued 224,903,389 additional ordinary shares of 0.0016 rubles each under a closed subscription. On December 16, 1998, the emission was registered by the Federal Commission on Securities of the Russian Federation. The purpose of this emission was to swap 5 percent of Sibneft shares for minority shareholders' stock in Noyabrsk and Geofizika. On April 26, 1999, the Federal Commission on Securities of the Russian Federation approved the swap of 224,903,389 shares of Sibneft for 35,632,410 shares of Noyabrsk (20,582,466 ordinary and 15,049,944 preferred) and 17,563 ordinary shares of Geofizika. As the result of this transaction the Company acquired approximately 28 percent of Noyabrsk and Geofizika shares. The fair market value of this swap equals US$ 808 million and was based on the book value of Noyabrsk and Geofizika assets as of April 1999 and a future discounted cash flow from proved developed reserves as of December 31, 1998. The difference between the nominal value of Sibneft's additional shares converted to dollars as of the date of emission (US$ 15 thousand) and the fair market value of the swap was recorded as Additional Paid-in Capital.

During 2000, the Company repurchased 1,291,482,200 (about 27%) of its own shares for approximately US$ 541 million. As of December 31, 2000 this treasury stock is held by different nominees.

16. Dividends

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

The Company declared US$ 50 million common stock dividends. No dividends were declared by the Company or its subsidiaries in 1999.

17. Income Taxes

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

	2000	1999
Current income taxes	78,365	8,497
Deferred income taxes	-	-
Total provision for income taxes	78,365	8,497

The provision for income taxes represents the total income tax expense for the Company and each of its subsidiaries. In all cases deferred income taxes were calculated as an asset. Due to the Russian environment described in Note 1 and the corresponding uncertainty of realization, all of these assets have been fully reserved.

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):

	2000	1999
Income before income taxes	753,210	323,603
Statutory income tax rate	30%	30%
"Expected" income tax expense	225,963	97,081
Add (deduct) tax effect of:		
Benefit of income taxed at lower rate	(253,260)	-
Minority interest effect on income	(18,465)	(26,900)
Temporary accounting differences, resulting in a net deferred tax asset which has been reserved	7,350	84,277
Permanent accounting differences	116,777	(145,961)
Income taxes	78,365	8,497
Effective tax rate	10%	3%

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

Temporary differences between the Russian statutory accounts and these financial statements give rise to the following deferred tax assets and liabilities at 31 December 2000 and 1999:

	2000	1999
Assets arising from tax effect of		
Deferred tax assets		
Fixed assets	89,099	82,381
Site restoration costs	19,858	17,330
Accounts payable and other liabilities	-	1,896
	108,957	101,607
Reserve for deferred tax assets	(108,957)	(101,607)
Net deferred tax assets	-	-

18. Commitments and Contingencies

Construction and Exploration Programs

The Company is engaged in continuous construction and exploration programs, currently estimated to total US$ 438 million (unaudited) over the next year at Noyabrsk and US$ 48 million (unaudited) over the next year for OR. The construction and exploration programs are subject to periodic reviews and actual expenditures may vary from the above estimates. At December 31, 2000, no significant purchase commitments were outstanding in connection with the construction programs.

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

Environmental Matters

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

Insurance Matters

The Company maintains only minimal levels of insurance on its existing asset base, or in certain cases self-insures, and as a result is subject to significant uninsured exposures in the event of loss or destruction of principal operating assets. In addition, Russian insurance providers usually do not offer business interruption insurance.

Social Assets

The Company possesses significant social assets for the use of employees. These assets were contributed by the State in years prior to the inception of the Company. In accordance with the Presidential Decree on privatization in Russia, the Company is required to transfer the social assets to the relevant local city administrations. Accordingly, as the Company does not have ownership of these assets, they are not recorded in these financial statements.

With respect to these social assets, the Company has incurred US$ 9 million and US$ 7 million in expenses for the years ended December 31, 2000 and 1999, respectively.

19. Related Party Transactions

Transactions with Shareholders

During 2000, approximately 40% of sales (38% during 1999) was made to a shareholder, Runicom Ltd. who principally exports crude and refined products. As of December 31, 2000, the Company had outstanding trade receivables from the shareholder totaling US$ 68 million (US$ 46 million as of December 31, 1999), representing amounts outstanding in connection with these export sales.

20. Segment Information

Presented below is information about the Company's operating segments for the years ended December 31, 2000 and 1999. The Company determined it's 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 and other feedstock into refined products and purchase, sell and transport crude oil and refined petroleum products.

Operating Segments 2000:

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

Operating Segments 1999:

	Exploration and Production	Manufacturing, Marketing And Distribution	Consolidated
Revenues			
Total	756,789	1,337,321	2,094,110
Inter-segment eliminations	(159,946)	(187,716)	(347,662)
Outside	596,843	1,149,605	1,746,448
Operating profit (loss)	73,537	183,807	257,344
Capital expenditures, net	105,553	14,850	120,403
Depreciation, depletion and amortization	191,925	97,880	289,805
Total assets	2,897,948	1,382,004	4,279,952

21. Subsequent Events

In March, 2001 Noyabrsk, OR, Geofizika and Nefteproduct registered prospectuses for share emissions with a significant increase of the nominal value of shares without any change to the monetary amount of the charter capital. The purpose of these emissions was to convert old shares of each subsidiary to the new shares with a higher nominal value. In April, 2001 during the exchange process the Company purchased all the shares of individual minority shareholders whose total nominal value of their sharing was less than the nominal value of a single share from a new emission for the total consideration of approximately US$ 9 million. As a result of this exchange the Company extended its ownership in the subsidiaries.