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Audited Consolidated Financial Statements

OJSC Rosneft Oil Company

Years ended December 31, 2002 and 2001
with Report of Independent Auditors

OJSC Rosneft Oil Company

Audited Consolidated Financial Statements

Years ended December 31, 2002 and 2001

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Report of Independent Auditors

To the Shareholder and Board of Directors
of OJSC Rosneft Oil Company

We have audited the accompanying consolidated balance sheet of OJSC Rosneft Oil Company, a Russian open joint stock company, and subsidiaries (the "Company") as of December 31, 2002 and the related consolidated statements of income, changes in shareholder's equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Consolidated financial statements of the Company prepared in accordance with accounting principles generally accepted in the United States of America as of and for the year ended December 31, 2001, were audited by other auditors, who have ceased operations and whose report dated May 31, 2002, expressed an unqualified opinion on those consolidated financial statements prior to their restatement.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2002, and the consolidated results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in Note 3 that were applied to restate the 2001 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

As discussed in Note 2 to the financial statements, the Company has given retroactive effect to the change in its method of accounting for cash and cash equivalents concerning interest bearing deposits, which were reclassified from short-term investments.

June 15, 2003

OJSC Rosneft Oil Company

Consolidated Balance Sheets
for the years ended December 31, 2002 and 2001

(Currency – thousands of US dollars)

	Notes	2002	2001 restated
ASSETS			
Current assets			
Cash and cash equivalents	**4**	**$ 278,231**	$ 160,174
Short-term investments	**5**	**368,699**	258,034
Accounts receivable, net of allowance for doubtful accounts of US$39,516 and US$ 83,883, respectively	**6**	**639,893**	420,535
Inventories, net	**7**	**275,109**	216,385
Prepaid expenses		**51,408**	24,465
Total current assets		**1,613,340**	1,079,593
Non-current assets			
Long-term investments, net	**8**	**392,176**	157,657
Oil and gas properties, net	**9**	**2,063,165**	1,902,843
Property, plant and equipment, net	**10**	**820,959**	891,604
Construction-in-progress	**11**	**303,048**	267,968
Other non-current assets		**1,213**	876
Total non-current assets		**3,580,561**	3,220,948
Total assets		**$ 5,193,901**	$4,300,541
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	**12**	**$ 501,429**	$ 327,353
Short-term loans and current portion of long-term debt	**13**	**283,992**	452,987
Accrued income and other taxes	**14**	**77,671**	78,943
Other current liabilities		**–**	5,852
Total current liabilities		**863,092**	865,135
Site restoration costs	**15**	**140,591**	131,148
Long-term debt	**13**	**1,181,618**	456,941
Deferred tax liability	**18**	**58,527**	99,066
Minority interest	**16**	**756,931**	843,553
Total liabilities		**3,000,759**	2,395,843
Shareholder's equity			
Common stock (Shares authorized and outstanding: 88,733,312 for 2002 and 2001)	**17**	**19,430**	19,430
Preferred stock (Shares authorized and outstanding: 1,446,047 for 2002 and 2001)	**17**	**247**	247
Retained earnings		**2,173,465**	1,885,021
Total shareholder's equity		**2,193,142**	1,904,698
Total liabilities and shareholder's equity		**$ 5,193,901**	$4,300,541

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

OJSC Rosneft Oil Company

Consolidated Statements of Income
for the years ended December 31, 2002 and 2001

(Currency – thousands of US dollars)

	Notes	2002	2001
Revenues			
Oil and gas sales		**$ 1,245,271**	$ 936,634
Refined products and processing fees		**1,118,763**	1,134,000
Support services and other sales		**314,699**	251,823
Total revenues		**2,678,733**	2,322,457
Operating expenses			
Cost of sales:			
Cost of oil and gas sales		**185,205**	156,409
Cost of refined products and processing fees		**325,551**	416,293
Cost of support services and other sales		**182,087**	168,653
Total cost of sales		**692,843**	741,355
Selling, general and administrative		**243,354**	234,583
Pipeline tariffs and transportation costs		**308,737**	227,898
Exploration expenses		**6,517**	44,222
Depreciation, depletion and amortization		**282,410**	274,249
Taxes other than income taxes		**450,237**	201,991
Total operating expenses		**1,984,098**	1,724,298
Operating income		**694,635**	598,159
Other income/(expense)			
Interest income		**48,882**	24,749
Interest expense		**(82,262)**	(56,748)
(Loss)/gain on disposals of property, plant and equipment		**(3,903)**	12,656
(Loss)/gain on sale of share of investments		**(14,342)**	282,160
Equity share in affiliates' earnings (losses)		**(2,030)**	11,290
Other non-operating expenses, net		**(92,386)**	(110,027)
Minority interests in subsidiaries' earnings		**(21,472)**	(94,503)
Currency translation (loss)/gain		**(32,938)**	20,740
Total other (expense)/income		**(200,451)**	90,317
Income before income taxes		**494,184**	688,476
Income tax expense	**18**	**(170,461)**	(209,721)
Net income		**$ 323,723**	$ 478,755

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

OJSC Rosneft Oil Company

Consolidated Statements Changes of Shareholder's Equity for the years ended December 31, 2002 and 2001

(Currency – thousands of US dollars)

	Common stock	**Preferred stock**	**Retained earnings**	**Shareholder's equity**
Balance at December 31, 2000 (restated)	$ 19,430	$ 247	$ 1,406,266	$ 1,425,943
Net income for the year	-	-	478,755	478,755
Balance at December 31, 2001 (restated)	$ 19,430	$ 247	$1,885,021	$ 1,904,698
Net income for the year	–	–	**323,723**	**323,723**
Dividends declared on common and preferred shares	–	–	**(35,279)**	**(35,279)**
Balance at December 31, 2002	**$ 19,430**	**$ 247**	**$2,173,465**	**$ 2,193,142**

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

OJSC Rosneft Oil Company

Consolidated Statements of Cash Flows for the years ended December 31, 2002 and 2001

(Currency – thousands of US dollars)

	2002	2001 restated
Operating activities		
Net income	**$ 323,723**	$ 478,755
Reconciliation of net income to net cash provided by operating activities:		
Non-cash activities	**(4,796)**	(60,176)
Currency translation loss on cash and cash equivalents	**9,777**	1,320
Depreciation, depletion and amortization	**282,410**	274,249
Exploratory expenses	**6,517**	44,222
Loss/(gain) on disposals and write-down of assets	**34,854**	(344,863)
Deferred income tax	**(40,539)**	4,376
Increase in site restoration provision	**9,443**	27,601
Equity share in affiliates' earnings (losses)	**2,030**	(11,290)
Reduction in allowance for doubtful accounts	**(44,367)**	(647)
Minority interests in subsidiaries' earnings	**21,472**	94,503
Changes in operating assets and liabilities:		
Increase in accounts receivable	**(174,991)**	(86,125)
(Increase)/decrease in inventories	**(58,581)**	17,487
Increase in prepaid expenses	**(26,943)**	(40,262)
Increase in other non-current assets	**(337)**	–
Increase in accounts payable and accrued liabilities	**196,443**	58,436
Decrease in accrued income and other taxes	**(1,272)**	(45,565)
(Decrease)/increase in other current liabilities	**(5,852)**	24,759
Net cash provided by operating activities	**528,991**	436,780
Investing activities		
Capital and exploration expenditures	**(419,533)**	(397,495)
Proceeds from sale of fixed assets	**12,395**	8,976
Purchase of short-term investments	**(389,913)**	(158,425)
Sales of short-term investments	**276,358**	–
Cash used in acquisition of additional shares in subsidiary	**(116,074)**	(400,973)
Proceeds from sale of long-term investments	**7,599**	381,181
Purchase of long-term investments	**(270,025)**	(101,996)
Net cash used in investing activities	**(899,193)**	(668,732)
Financing activities		
Proceeds from short-term debt	**42,680**	–
Repayment of short-term debt	**(211,675)**	(105,941)
Proceeds from long-term debt	**1,122,676**	901,527
Repayment of long-term debt	**(397,999)**	(433,958)
Preferred dividends of subsidiaries paid	**(22,367)**	(23,102)
Common dividends paid	**(35,279)**	(21,060)
Net cash provided by financing activities	**498,036**	317,466
Increase in cash and cash equivalents	**127,834**	85,514
Cash and cash equivalents at beginning of year	**160,174**	75,980
Effect of currency translation loss on cash	**(9,777)**	(1,320)
Cash and cash equivalents at end of year	**$ 278,231**	$ 160,174
Supplemental disclosures of cash flow information		
Cash paid for interest (net of amount capitalized)	**$ 70,904**	$ 63,713
Cash paid for income taxes	**$ 160,034**	$ 216,695
Supplemental disclosure of non-cash activities		
Income taxes off-sets	**$ 23,090**	–
Non-cash capital expenditures	**$ (34,833)**	$ (84,375)
Non-cash disposal of assets	**$ 30,037**	$ 24,199

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

(all amounts are in thousands of US dollars, except as noted otherwise)

1. General

Nature of Operations

OJSC Rosneft Oil Company ("Rosneft") and its subsidiaries, (collectively the "Company"), are principally engaged in exploration, development, production and sale of crude oil, and the refining, transportation and sale of petroleum products in the Russian Federation and in certain international markets.

Rosneft was incorporated as an open joint stock company on December 7, 1995. All assets and liabilities previously managed by the state enterprise "Rosneft" were transferred to the Company at their book value effective on that date together with the Government of the Russian Federation's (the "State") ownership in other privatized oil and gas companies. The transfer of assets and liabilities was made in accordance with Resolution No. 971, "On the transformation of Rosneft into an open joint stock company "NK Rosneft", dated September 29, 1995. Such transfers represent a reorganization of assets under the common control of the State and, accordingly, are accounted for at their book value. As of December 31, 2002, the State through the Ministry of Property maintains a 100.00 per cent interest in Rosneft.

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 2002 and 2001 the Company's export sales (including sales to other CIS countries and export bypassing Transneft pipeline system) have approximated 50 and 43 per cent 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.

(all amounts are in thousands of US dollars, except as noted otherwise)

1. General (continued)

Nature of Operations (continued)

Principal subsidiary companies included in the consolidated financial statements and ownership interests of Rosneft as of December 31, 2002 are as follows:

Name	Nature of Business	Preferred and Common Shares	Voting Shares
		%	%
Exploration and production			
OJSC Rosneft-Purneftegas	Oil and gas development and production	83.09	90.82
OJSC Rosneft-Sakhalinmorneftegas	Oil and gas development and production	63.34	84.30
OJSC Rosneft-Krasnodarneftegas	Oil and gas development and production	51.06	59.29
OJSC Rosneft-Stavropolneftegas	Oil and gas development and production	71.95	87.75
OJSC Rosneft-Dagneft	Oil and gas development and production	68.70	91.60
OJSC Rosneft-Grozneftegas	Oil and gas development and production	51.00	51.00
OJSC Rosneft-Termneft	Oil and gas development and production	38.00	50.67
OJSC Rosneft-Sakhalin	Exploration and development	55.00	55.00
Refineries			
OJSC Rosneft-Tuapse Refinery	Petroleum refining	39.50	52.70
OJSC Rosneft-Komsomolsky Refinery	Petroleum refining	77.36	83.30
OJSC Rosneft-MZ Nefteproduct	Petroleum refining	65.42	87.23
Petroleum marketing and distribution			
OJSC Rosneft-ARTAG	Marketing and distribution	38.00	50.67
OJSC Rosneft-Altainefteproduct	Marketing and distribution	64.18	78.59
OJSC Rosneft-Arkhangelsknefteproduct	Marketing and distribution	75.42	90.60
OJSC Rosneft-Kabbalknefteproduct	Marketing and distribution	38.00	50.67
OJSC Rosneft-Kubannefteproduct	Marketing and distribution	66.68	88.90
OJSC Rosneft-Karachaevo-Cherkessknefteproduct	Marketing and distribution	85.99	87.46
OJSC Rosneft-Kurgannefteproduct	Marketing and distribution	38.00	50.67
Rosneft Kransodarskaya neftebasa LLC	Marketing and distribution	100.00	100.00
OJSC Rosneft-Murmansknefteproduct	Marketing and distribution	45.36	60.47
OJSC Rosneft-Nakhodkanefteproduct	Marketing and distribution	38.00	50.67
OJSC Rosneft-Smolensknefteproduct	Marketing and distribution	66.67	86.87
OJSC Rosneft-Tuapsenefteproduct	Marketing and distribution	38.00	50.67
OJSC Rosneft-Yamalnefteproduct	Marketing and distribution	49.52	66.03
RN-Vostoknefteproduct LLC	Marketing and distribution	100.00	100.00
OJSC Rosneft-Stavropolye	Marketing and distribution	75.16	75.16
Other			
RN-Teleport LLC	Information technology	99.00	99.00
OJSC All-Russian Bank for Reconstruction and Development of Russian Regions	Bank services	57.39	57.39
CJSC Rosneft-Finance	Finance services	46.50	46.50
RN-Perspektiva LLC	Corporate planning	99.00	99.00
Rosneftetrans LLC	Transportation services	95.00	95.00
CJSC RN-Astra	Investment activities	99.00	99.00

1. General (continued)

Nature of Operations (continued)

All of the above subsidiaries are incorporated in the Russian Federation.

During 2002, the Company extended its ownership in its major subsidiaries through a series of purchase transactions of additional shares amounting to US$ 116 million. These transactions have been accounted for under the purchase method of accounting. On some transactions the Company's share in the subsidiaries' net assets at the date of acquisition exceeded the purchase price by US$ 26.1 million. This amount has been allocated in consolidation against oil and gas properties (US$ 21.6 million) and property, plant and equipment (US$ 4.5 million) in accordance with the provisions of SFAS No.141. On other transactions, the purchase price was higher than the acquired share of subsidiaries' net assets. These transactions were recorded on the consolidated level as an increase in oil and gas properties of US$ 16.2 million. Net income in 2002 and 2001 amounted to US$ 323,723 and US$ 478,755, respectively. During 2001 the Company recognized US$ 282 million of gain on the partial sale of its share in PSA "Sakhalin-1". This gain led in a substantial increase in net income for 2001.

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 in the past included higher than normal historic inflation, lack of liquidity in the capital markets, and the existence of currency controls, which cause the national currency to be illiquid outside of Russia. The continued success and stability of the Russian economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

Currency Exchange and Control

Foreign currencies, in particular the US dollar, play a significant role in the underlying economics of many business transactions in Russia.

The Company's principal currency risk relates to the ability of the Company to have available hard currency to pay its US$ debts. In addition, fluctuations in the exchange rate of rubles to US dollars exposes the Company to exchange rate risks. The Company attempts to maintain certain levels of crude oil and petroleum products exports, which are generally settled in US dollars, to meet these obligations. The Central Bank of Russia has established strict currency control regulations designed to promote the commercial utilization of the ruble. Such regulations place restrictions on the conversion of rubles into hard currencies and establish requirements for conversion of hard currency sales to rubles.

(all amounts are in thousands of US dollars, except as noted otherwise)

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 the Russian Accounting Regulations ("RAR"). 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 oil and gas property conveyances.

Management Estimates

The preparation of the 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.

Principles of Consolidation

Rosneft consolidates entities or ventures in which it has majority voting control. This generally includes all entities, in which the Company directly or indirectly owns more than 50.00 per cent of the common shares. All significant intercompany balances and transactions have been eliminated. Investments in other significant entities in which the Company owns between 20.00 and 50.00 per cent are accounted for under the equity method of accounting. Investments in other companies are accounted for at cost and adjusted for estimated impairment.

Included in the consolidated financial statements as a subsidiary is CJSC Rosneft-Finance, in which the Company has less than 50.00 per cent share, but over which it exercises significant control.

The Company accounts for its investment in Sakhalin-1 Production Sharing Agreement in accordance with the equity method of accounting, and follows the successful efforts method of accounting for its oil and gas exploration and production activities.

2. Summary of Significant Accounting Policies (continued)

Principles of Consolidation (continued)

Depreciation, depletion and amortization of capitalized oil and gas costs will be computed on the unit-of-production method over the estimated recoverable oil and gas reserves.

Minority Interests in Subsidiary Companies

Minority interest in the consolidated balance sheets reflects minority owners' percentage 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. Preferred shareholders of the Company subsidiaries are entitled to a dividend of 10.00 per cent of net profit, as determined under Charter of Rosneft subsidiaries.

Foreign Currency Translation

The Company's functional currency is Russian ruble, as the majority of its domestic revenues, production expenses, property and equipment purchases, and trade liabilities are priced, incurred, payable or otherwise measured in Russian rubles.

The accompanying consolidated financial statements have been prepared in US dollars pursuant to requirements of SFAS No. 52, "Foreign Currency Translation" applied to entities in highly inflationary economies. Transactions and balances not already measured in US dollars (primarily Russian rubles) have been remeasured into US dollars in accordance with the relevant provisions of SFAS No. 52, as applied to entities in highly inflationary economies.

Under SFAS No. 52, revenues, costs, capital, and non-monetary assets and liabilities are translated at historical exchange rates prevailing on the transaction dates. Monetary assets and liabilities are translated at exchange rates prevailing on the balance sheet date. Exchange or translation gains and losses arising from re-measurement of monetary assets and liabilities that are not denominated in US dollars are recorded in the statement of income.

The Russian ruble is not a convertible currency outside the territory of Russia. Official exchange rates are determined daily by the Central Bank of Russia ("CBR") and are generally considered to be a reasonable approximation of market rates. Due to daily exchange rate changes, the translated ruble-denominated assets, liabilities and equity for the purpose of these financial statements may be realized or settled in US dollars at the exchange rate different from the one set as of December 31, 2002.

(all amounts are in thousands of US dollars, except as noted otherwise)

2. Summary of Significant Accounting Policies (continued)

Foreign Currency Translation (continued)

Likewise, it does not indicate that the Company could return the reported US dollar values of capital and retained earnings to its shareholder.

The official exchange rates as of December 31, 2002 and 2001 for one US dollar were 31.78 rubles and 30.14 rubles, respectively. As of June 11, 2003 (the latest business day available), the official exchange rate was 30.55 rubles for one US dollar.

On November 25, 2002, the AICPA International Practices Task Force concluded that, effective January 1, 2003, Russia should cease being considered a highly inflationary economy for purposes of SFAS No. 52. The Company is currently evaluating the impact the pronouncement will have on future consolidated financial statements.

Cash and Cash Equivalents, including Change in Accounting Policy

Cash represents cash on hand and in the Company's bank accounts and interest bearing deposits, which can be effectively withdrawn at any time without prior notice or penalties reducing principal amount of deposit.

The Company has changed its method of accounting for certain interest bearing bank deposits from the method used in 2001 and prior periods. The Company now classifies interest bearing bank deposits, which can be withdrawn at any time without penalty, as cash and cash equivalents, as allowed by SFAS No. 95 "Statement of Cash Flows".

The Company has restated its 2001 financial statements to reflect this change in accounting. This change had the following effect on previously reported amounts:

	As previously reported	**As restated**
Cash and cash equivalents as of December 31, 2001 (no effect as of the beginning of 2001)	$ 127,374	**$ 160,174**
Short-term investments	$ 290,834	**$ 258,034**
Net cash used in investing activities - 2001	$ (701,532)	**$ (668,732)**

Accounts Receivable

Accounts receivable are shown at their net realizable value, which approximates fair value, and are presented net of an allowance for doubtful accounts. Management calculates a specific allowance for significant doubtful accounts and estimates the allowance for others based on aging categories and historical write-offs.

2. Summary of Significant Accounting Policies (continued)

Inventories

Inventories, consisting primarily of crude oil, petroleum products and materials and supplies, are stated at the lower of weighted average cost or market value. A reserve is established against slow moving and obsolete or excess materials and supplies.

Oil and Gas Properties

The Company follows the successful efforts method of accounting for its oil and gas exploration and production activities. Under this method, exploration costs, including geological and geophysical costs and dry hole costs are charged to expenses as incurred. Costs of drilling exploratory wells, including stratigraphic test wells and seismic costs, 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.

As of December 31, 2002 and 2001, the Company used oil and gas reserves determined in accordance with the US GAAP definitions and independently estimated by DeGoyler and MacNaughton for all of its significant exploration and production subsidiaries. The Company used the reserve report to calculate the depreciation, depletion and amortization, relating to oil and gas properties for the years ended December 31, 2002 and 2001. The reserve report is also utilized in the assessment of impairment of long-lived assets and for the required supplemental disclosure for oil and gas activities (see Note 24).

Gains and losses are not recognized for normal retirements or sales of oil and gas related facilities subject to composite depreciation, depletion and amortization.

Equity Investment In Production Sharing Agreement and Mineral Properties

The Company is party to Production Sharing Agreements (PSAs) between various foreign and domestic energy companies and the Russian Federation. In particular, the Company is a party to the "Sahhalin-1" PSA whereby the Company has an interest in the PSA pertaining to the development and operation of certain mineral interests. These activities are conducted through a non-incorporated consortium and are governed through various agreements by and among the respective consortium members and the Russian Federation. The business is generally operated by a named party, yet the consortium members have the ability to influence key decisions and the consortium is subject to the terms, conditions and obligations of the specific PSA. As a special arrangement, the consortium members share in the joint operation of the activities, including project funding and development, as well as special provisions for taxation and sharing arrangements with the Russian Federation.

(all amounts are in thousands of US dollars, except as noted otherwise)

2. Summary of Significant Accounting Policies (continued)

Equity Investment In Production Sharing Agreement and Mineral Properties (continued)

The Company's primary investment in a PSA is through Sakhalin-1 ("PSA 1). Due to the participation percentage, the nature of the investment and other arrangements as described below, the Company considers its investment in the PSA to be equivalent to an equity interest in a business venture. As a result, it accounts for its investment in accordance with the equity method of accounting.

In February 2001, the Company signed an agreement with ONGC Videsh Ltd ("ONGC") in relation to the Sakhalin-1 PSA. In accordance with the terms of the arrangement and SFAS No. 19 "Financial Accounting and Reporting by Oil and Gas Producing Companies" for the accounting for mineral conveyances, the Company treated the arrangement with ONGC as a sale of a partial mineral interest and a "carried interest" for the retained interest in the PSA. Refer to Note 8 for further information pertaining to the arrangement. In accordance with SFAS No. 19, the Company recognized a gain on the sale of the conveyed interest and carries its existing investment in the carried interest at the cost of such interest. Funding payments made by ONGC for the Company's portion of development costs are not recognized by the Company as an asset. In addition, net funds from operating activities associated with the retained interest will be recognized only to the extent that such funds or interests do not accrue to the benefit of ONGC for recovery of its investment in the carried interest.

Property, Plant and Equipment

Property, plant and equipment are stated at historical cost translated as at date of acquisition net of accumulated depreciation. 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.

Impairment of Long-lived 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.

2. Summary of Significant Accounting Policies (continued)

Impairment of Long-lived Assets (continued)

The recoverability of oil and gas properties is assessed whenever events or circumstances indicate a potential impairment. Long-lived assets, including oil and gas properties with recorded values that are not expected to be recovered through future cash flows, are written down to current fair value in the periods in which the determination of impairments are made. Revenues used in calculating future pre-tax cash flows are based on the ultimate selling price of the Company and the amount of oil and gas reserves. Fair value is generally determined from estimated discounted future net cash flows.

The test is performed for each extraction division (NGDU), which is the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets.

There was no effect in the current year financial statements upon adoption of this standard.

Depreciation, Depletion and Amortization

All capitalized costs related to oil and gas producing activities and capitalized interest are depleted using the unit-of-production method. Management of the Company considers each extraction division (NGDU) as depletable geological structures. The depletion rate per barrel is calculated by dividing the net depletable assets by the remaining estimated economically recoverable proved developed crude oil and gas reserves in respect of production assets. This rate is multiplied by the current year crude oil production to determine the depletion charge for the year.

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.

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 constructions	15-45 years
Plant and machinery and equipment	20-30 years
Vehicles and other assets	3-12 years
Service vessels	20 years
Offshore drilling	20 years

2. Summary of Significant Accounting Policies (continued)

Capitalized Interest

Interest is capitalized on expenditure made in connection with the capital projects 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. The Company capitalized US$ 24.5 million and US$ 12.6 million of interest expense in 2002 and 2001, respectively.

Fair Value of Financial Instruments

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.

Financial assets and financial liabilities carried in the accompanying consolidated balance sheets include cash, short-term and long-term investments, accounts receivable and payable, short-term debt and other current and non-current assets and liabilities. The accounting policies with respect to recognition and measurement of these items are disclosed in the respective accounting policies found in this Note.

The Company, using available market information, management's judgment and appropriate valuation methodologies, has determined the estimated fair values of financial instruments.

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 local accounting principles at the applicable local tax rates after adjustments for certain items which are not deductible for taxation purposes, and after consideration of tax allowances. 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 associated with differences between the financial reporting and tax basis of assets and liabilities and gives immediate income statement affect 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.

2. Summary of Significant Accounting Policies (continued)

Revenue

Revenues are recognized when title passes to the customer, the selling price is fixed or determinable and collectibility is reasonably assured. Specifically, crude oil sales and petroleum product and materials sales are recognized when they are shipped to customers. In the accompanying consolidated financial statements revenues are stated net of taxes and custom duties. Sales of support services are recognized as services are performed providing that the price for the service can be determined and no significant uncertainties regarding realization exist.

Refinery Shutdown Costs

The Company recognizes costs of overhauls and periodic maintenance as expenses when incurred.

Comprehensive Income

In 1998 the Company applied SFAS No.130, "Reporting Comprehensive Income", which 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 consolidated financial statements. For the year ended December 31, 2002 and 2001, comprehensive income equaled net income.

Accounting for Contingencies

Certain conditions may exist as of the date these consolidated 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 assesses 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 consolidated 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.

2. Summary of Significant Accounting Policies (continued)

Accounting for Contingencies (continued)

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.

Reclassifications

Certain amounts in the fiscal 2001 consolidated financial statements, as previously reported, have been reclassified to conform to the fiscal 2002 presentation. Pipeline tariffs and transportation costs have been reclassified from selling, general and administrative expense. Interest bearing deposits, which didn't contain penalties or prior notification clause in case of early withdrawal were reclassified from other short-term investments to cash equivalents. Advances to suppliers have been reclassified from prepaid expenses to accounts receivable.

Recent Accounting Standards

In November 2002, the Financial Accounting Standards Board issued Interpretation # 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ("FIN 45"). FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it had issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligations undertaken in issuing the guarantee. The measurement and initial recognition provision of FIN 45 are effective for guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 are effective for financial statements of periods ending after December 15, 2002.

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

2. Summary of Significant Accounting Policies (continued)

Recent Accounting Standards (continued)

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". 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. An entity shall measure 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 shall be the credit-adjusted risk-free rate that existed when the liability was initially measured. That amount shall be 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. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. When SFAS No. 143 is adopted the Company will need to recognize the full amount of the estimated site restoration provision and to increase fixed assets by a corresponding amount. As at December 31, 2002 and 2001 this would have resulted in an increase in fixed assets of US$ 56.9 million and US$ 56.2 million and a decrease in the site restoration provision of US$ 4.7 million and US$ 25.1 million, respectively.

In June 2002, the FASB issued SFAS No.146, "Accounting for Costs Associated with Exit or Disposal Activities". This Statement nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The principal difference between this Statement and Issue 94-3 relates to its requirements for recognition of a liability for a cost associated with an exit or disposal activity. The new Statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost as defined in Issue 94-3 was recognized at the date of an entity's commitment to an exit plan.

The new Statement also establishes that fair value is the objective for initial measurement of the liability. The provisions of SFAS No. 146 are effective for exit of disposal activities that are initiated after December 31, 2002, with early application encouraged. The management does not anticipate that adoption of SFAS No. 146 will have a material impact on its results of operations or its financial position.

In December 2002, FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure". This Statement amends FASB Statement No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

(all amounts are in thousands of US dollars, except as noted otherwise)

2. Summary of Significant Accounting Policies (continued)

Recent Accounting Standards (continued)

SFAS No. 148 is effective for fiscal years ending after December 15, 2002 for transition guidance and annual disclosure provisions; it is effective for interim periods beginning after December 15, 2002 for interim disclosure provisions. The management does not anticipate that adoption of SFAS No. 148 will have a material impact on its results of operations or its financial position.

3. Correction of Previous Years Accounting

Before 2002 the Company accounted for preferred dividends of subsidiaries related to minority shareholders as a reduction of consolidated shareholder's equity. During 2002, the Company made a correction of such accounting, which affected the amount of minority interest liability and dividends on preferred shares of subsidiaries retrospectively. As a result, the Company's retained earnings at December 31, 2001 and 2000 increased by US$ 36,795 and US$ 19,821, respectively. Accordingly, the prior year financial statements have been restated to reflect the cumulative effect of the correction.

4. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, comprise the following:

	2002	2001
Cash in bank and on hand – rubles	**$ 117,557**	$ 52,558
Cash in bank – hard currency	**24,826**	56,968
Interest bearing deposits – hard currency	**100,000**	32,800
Cash equivalents and other	**35,848**	17,848
Total cash and cash equivalents	**$ 278,231**	$ 160,174

Interest bearing deposits represent bank deposits readily convertible to known amount of cash and may be withdrawn by the Company at any time without prior notice or penalties.

(all amounts are in thousands of US dollars, except as noted otherwise)

5. Short-Term Investments

Short-term investments as of December 31, comprise the following:

	2002	2001
Bank deposits	**$ 244,315**	$ 184,556
Other	**124,384**	73,478
Total short-term investments	**$ 368,699**	$ 258,034

Short-term investments consist principally of bank deposits with maturities between three and twelve months.

6. Accounts Receivable, net

Accounts receivable as of December 31, comprise the following:

	2002	2001
Trade receivables	**$ 182,965**	$ 176,289
Value Added Tax receivable	**228,951**	153,676
Advances to suppliers	**150,916**	75,113
Other	**116,577**	99,340
Less allowance for doubtful accounts	**(39,516)**	(83,883)
Total accounts receivable, net	**$ 639,893**	$ 420,535

The Company's accounts receivables are denominated primarily in rubles.

7. Inventories, net

Inventories as of December 31, comprise the following:

	2002	2001
Materials and supplies	**$ 178,969**	$ 112,024
Crude oil	**50,253**	46,191
Petroleum products	**45,887**	58,170
Total inventories	**$ 275,109**	$ 216,385

Materials and supplies are mostly comprised of spare parts, construction materials and pipes.

(all amounts are in thousands of US dollars, except as noted otherwise)

8. Long-Term Investments, net

Equity and other long-term investments as of December 31, comprise the following:

	2002	2001
Equity investments		
"Sakhalin-1" PSA	**$ 59,384**	$ 59,384
Polar Lights	**28,214**	22,536
Sevmorneftegaz	**150,159**	–
OJSC Arkhangelskgeoldobycha	–	7,518
Other	–	16,001
Subtotal equity investments	**237,757**	105,439
State currency bonds	**52,338**	3,889
Other investments, at cost	**102,081**	48,329
Total long-term investments, net	**$ 392,176**	$ 157,657

Sakhalin-1 PSA

The terms of the carried interest agreements provide that the PSA Subsidiaries will maintain their operations and protect their respective interests in the PSA Agreement for the benefit of ONGC. Failure to do so could allow ONGC to cease funding of the carried interests.

Further, ONGC is entitled to 90 per cent of the net funds associated with the retained interests not otherwise needed for the funding of the retained interests' share of the development of the PSA. This interest is secured by the right of ONGC to the funds and retained interests associated with PSA 1. Rosneft has agreed to indemnify ONGC for losses or damages sustained by ONGC for failure of the PSA 1 Subsidiaries to, in effect, maintain the retained interests. The PSA 1 Subsidiaries are entitled to 10 per cent of the net funds associated with the interests until such time as ONGC's investment and rate of return is recovered. At such point, the share of the net proceeds and entitlement to the associated hydrocarbons revert back to the PSA 1 Subsidiaries in their entirety. As of December 31, 2002, ONGC has provided approximately US$ 132,523 toward the funding of the PSA 1 Subsidiaries' retained interest in the project costs.

During 2001, oil was discovered on the PSA 1 and consequently commerciality of the project has been declared. As of December 31, 2002 the funding requirements associated with the retained interests is estimated at approximately US$ 2,092.1 million (unaudited). Production is expected to start during 2005.

(all amounts are in thousands of US dollars, except as noted otherwise)

8. Long-Term Investments (continued)

LLC Polar Lights Company ("PLC")

PLC is a limited liability company owned 50.00 per cent by Conoco Timan-Pechora Limited, 30.00 per cent by OJSC Arkhangelskgeoldobycha and 20.00 per cent by the Company. PLC's primary emphasis has been the development and operation of the Ardalin and satellite fields, an oil field in the Timan-Pechora Basin located 125.0 kilometers south of the Barents Sea above the Arctic Circle. Development work on the Ardalin field began in late 1992 and first oil was produced in 1994.

CJSC Sevmorneftegaz

In January 2002 Rosneft, through Rosneft-Purneftegas, and Gazprom through Rosshelf, jointly have established CJSC Sevmorneftegaz, with equal shares in equity. Sevmorneftegaz is primarily engaged in exploration and production activity on Prirazlomnoye oil field and Shtokmanovskoye gas-condensate field in Pechorsk Sea and Barents Sea, respectively. During 2002 Sevmorneftegaz has acquired an off-shore platform, which was delivered on territory of Russian Federation based on temporary importation custom regime. Temporary importation regime expires in August 2003. At the moment, the upper part of the platform is ready for transportation to the plant 'Sevmash' in the city of Severodvinsk for reconstruction.

Cost of investment in Sevmorneftegaz is US$ 17. Share in Sevmorneftegaz net loss for 2002 is US$ 97.

During 2002 Rosneft provided long-term loans to Sevmorneftegas for financing of Prirazlomnoye oil field development in amount of US$ 140,000 with maturity in 2006. Accounts receivable from Sevmorneftegaz amounted to US$ 10,239.

OJSC Arkhangelskgeoldobycha

OJSC Arkhangelskgeoldobycha is engaged in exploration, production and development of crude oil and gas. As of December 31, 2001 the Company owned 25.50 per cent in OJSC Arkhangelskgeoldobycha. Share in Arkhangelskgeoldobycha net loss for 2002 exceeded the Company's investment, and therefore the investment is carried at zero as of December 31, 2002.

(all amounts are in thousands of US dollars, except as noted otherwise)

9. Oil and Gas Properties, net

Oil and gas properties as of December 31, comprise the following:

	2002	2001
Oil and gas properties	**$ 4,187,668**	$ 3,943,087
Pipelines	**87,712**	95,931
Total cost	**4,275,380**	4,039,018
Less: accumulated depletion	**(2,212,215)**	(2,136,175)
Net oil and gas properties	**$ 2,063,165**	$ 1,902,843

10. Property, Plant and Equipment, net

Property, plant and equipment as of December 31, comprise the following:

	2002	2001
Offshore drilling assets	**$ 172,852**	$ 168,276
Service vessels	**127,139**	145,721
Buildings	**862,494**	979,961
Plant and machinery	**628,391**	729,289
Vehicles and other equipment	**281,843**	285,216
Total cost	**2,072,719**	2,308,463
Less: Accumulated depreciation	**(1,251,760)**	(1,416,859)
Net property, plant and equipment	**$ 820,959**	$ 891,604

(all amounts are in thousands of US dollars, except as noted otherwise)

11. Construction-in-Progress

Construction-in-progress includes various construction projects and machinery and equipment delivered but not yet installed. As of December 31, construction-in-progress comprise the following:

	Construction-in-Progress	Machinery/ Equipment to Be installed	Total
Buildings	**$ 75,358**	**$ 1,708**	**$ 77,066**
Plant and machinery	**4,100**	**20,219**	**24,319**
Vehicles and other equipment	**193,288**	**8,375**	**201,663**
Total at December 31, 2002	**$ 272,746**	**$ 30,302**	**$ 303,048**
Buildings	$ 60,475	$ 146	$ 60,621
Plant and machinery	28,615	7,163	35,778
Vehicles and other equipment	168,937	2,632	171,569
Total at December 31, 2001	$ 258,027	$ 9,941	$ 267,968

12. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of December 31, comprise the following:

	2002	2001
Trade accounts payable	**$ 113,740**	$ 133,380
Salary, insurance and other payable	**37,594**	38,102
Advances received	**18,044**	23,442
Dividends payable	**22,802**	14,151
Promissory notes payable	**14,996**	11,607
Due to other banks	**117,136**	51,375
Other	**177,117**	55,296
Total accounts payable and accrued liabilities	**$ 501,429**	$ 327,353

The Company's accounts payable are denominated primarily in rubles. Due to other banks represents cash at banks belonging to the Company's clients. Dividends payable represents dividends on preferred shares to subsidiaries' minority shareholders.

(all amounts are in thousands of US dollars, except as noted otherwise)

13. Short-Term Loans and Long-Term Debt

Short-term loans from banks and other organizations as of December 31, comprise the following:

	2002	2001
US$ denominated		
Bank loans	**$ –**	$ 149,965
Other	**–**	9,055
Ruble denominated		
Bank loans	**29,853**	72,288
Other	**34,417**	25,195
	64,270	256,503
Current portion of long-term debt	**219,722**	196,484
Total short-term loans and current portion of long-term debt	**$ 283,992**	$ 452,987

The US$ denominated loans bear interest at a range of 10.00 to 12.00 per cent for the year ended December 31, 2001.The ruble denominated loans bear interest at a range of 10.00 to 20.00 per cent for the year ended December 31, 2002 and at a range of 15.00 to 20.00 per cent for the year ended December 31, 2001.

Long-term debt as of December 31, comprise the following:

	2002	2001
Bank loans – US$ denominated	**$ 1,393,747**	$ 499,185
Bank loans – Ruble denominated	**–**	146,700
Other borrowings	**7,593**	7,540
	1,401,340	653,425
Less current portion of long-term debt	**(219,722)**	(196,484)
Non-current portion of long-term debt	**$ 1,181,618**	$ 456,941

For the year ended December 31, 2002 the US$ denominated debts due to banks bear interest at LIBOR plus 1.25 to 12.92 per cent. For the year ended December 31, 2001 the US$ denominated debts due to banks bear interest at LIBOR plus 1.25 to 12.92 per cent, substantially all ruble denominated debt was at LIBOR plus 3.90 per cent.

13. Short-Term Loans and Long-Term Debt (continued)

As of December 31, 2002 the Company's collateral for short-term and long-term bank loans was hard currency export proceeds of 52,429.3 million rubles (US$ 1,649.8 million at the exchange rate as of December 31, 2002), oil and gas properties and other fixed assets for the amount of 4,202.3 million rubles (US$ 132.2 million at the exchange rate as of December 31, 2002), promissory notes of 21,791.1 million rubles (US$ 808.8 million at the exchange rate as of December 31, 2002) and cash of 7,465.8 million rubles (US$ 234.9 million at the exchange rate as of December 31, 2002). The promissory notes have been requested by Russian banks. The holding of such promissory notes by the Russian banks allows them to decrease their loan loss provision, which is obligatory under the rules of the Central Bank of Russia. If the bank exercises its rights in respect to these promissory notes, loans will be replaced by promissory notes in the Company's consolidated balance sheet (whereas company's assets and liabilities remain the same). Loans are also secured by crude oil of 21,791.1 million rubles (US$ 685.7 million at the exchange rate as of December 31, 2002). Loan agreements contain a number of covenants, which the Company is obliged to comply with. Those covenants include Company's obligations:

- to perform environmental audit every two years (applicable only to OJSC "Rosneft-Sakhalinmornefegaz");
- to insure against the risk of losses applicable to companies involved in oil and gas production in Russia;
- to maintain certain financial ratios at an agreed level;
- to maintain certain level of annual crude oil production (applicable only to OJSC "Rosneft-Sakhalinmornefegaz") and export;
- not to lease out, invest, sell, transfer property for an amount exceeding certain limits;
- not to pay dividends other than required under the Russian legislation.

The Company's failure to follow any of those covenants involves risk of early extinguishments of the total principal amount and interest accrued.

Under the provisions of one of the long-term agreements for US$ 148,650 thousand disclosed above, the Company's total consolidated indebtedness should not exceed US$1.25 billion. Total consolidated indebtedness as of December 31, 2002, was US$ 1.47 billion. In April 2003, the Company's lenders agreed to change limitation of total consolidated net indebtedness requirements to 75 per cent of the consolidated net worth, which as of December 31, 2002 was US$ 2.21 billion. Accordingly, the Company was able to classify the amounts payable under the loan agreement as a non-current liability in the accompanying consolidated balance sheet as of December 31, 2002.

(all amounts are in thousands of US dollars, except as noted otherwise)

13. Short-Term Loans and Long-Term Debt (continued)

The aggregate maturity of long-term debt outstanding at December 31, 2002 is as follows (in US$ thousand):

	2002
2003	**$ 219,722**
2004	**127,680**
2005	**436,143**
2006	**356,861**
2007 and after	**260,934**
Total long-term debt	**$ 1,401,340**

14. Accrued Income and Other Taxes

Accrued income and other taxes as of December 31, comprise the following:

	2002	2001
VAT	**$ 18,672**	$ 20,205
Excise tax	**12,454**	9,013
Income tax	**11,333**	11,144
Other taxes	**31,224**	35,005
Fines, penalties and interest	**3,988**	3,576
Total accrued income and other taxes	**$ 77,671**	$ 78,943

Tax on the extraction of commercial minerals ("unified production tax") was implemented on January 1, 2002 instead of payments for the replacement of the mineral raw material base (including excise taxes and royalties) that deemed to have lost force from January 1, 2002. It has also changed rates of export custom duties.

14. Accrued Income and Other Taxes (continued)

The new tax is levied on commercial minerals extracted from the subsurface within the territory of the Russian Federation. The tax base is determined as the value of extracted commercial materials, as calculated based on the volume of extracted commercial minerals and the applicable valuation method. All costs related to unified production tax for 2002 were paid as of December 31, 2002.

Russian taxes payable in 2002 include value added tax, corporate income tax ("income tax"), a number of turnover-based taxes, and payroll (social) taxes, together with others. In addition, the Company is also subject to excise duty taxes, which is specific for this industry during 2002. 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, nonexistent and, if they exist, can be contradictory.

These facts create tax risks in Russia substantially more significant than typically found in countries with more developed tax systems.

15. Site Restoration Costs

Future site restoration costs represent the provision for estimated future ruble cost to abandon wells and production facilities.

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 the future actual costs associated with these liabilities may differ from the recorded amounts.

The expense in amount of US$9.4 million and US$ 27.6 million related to the restoration costs is included as a component of the depreciation, depletion and amortization expense in 2002 and 2001, respectively.

(all amounts are in thousands of US dollars, except as noted otherwise)

16. Minority Interests

Minority owners' interests in the Company's subsidiaries' net assets, as of December 31, comprise the following:

Name	2002		2001	
	Minority interest	**Minority interest share in net assets**	**Minority interest**	**Minority interest share in net assets**
	%		%	
OJSC Rosneft-Purneftegas	**16.91**	**154,859**	24.72	211,364
OJSC Rosneft-Sakhalinmorneftegas	**36.66**	**224,389**	37.10	228,986
OJSC Rosneft-Krasnodarneftegas	**48.94**	**75,385**	49.09	68,738
OJSC Rosneft-Stavropolneftegas	**28.05**	**21,650**	49.28	39,003
OJSC Rosneft-Tuapse Nefteproduct	**62.00**	**101,985**	62.00	75,841
OJSC Rosneft-Komsomolsky Refinery	**22.64**	**12,065**	22.94	11,950
OJSC Rosneft-Tuapse Refinery	**60.50**	**22,940**	60.50	15,647
Other		**143,658**		192,024
Total		**756,931**		843,553

17. Shareholder's Equity

The shareholder's capital account represents the authorized capital of the Company, as stated in its Charter. The common shareholders are allowed one vote per share. The preferred shares become voting if a re-organization or liquidation of the Company is being discussed, or if the annual shareholders meeting does not approve a full payment of declared dividends on preferred shares. Such shares cease their voting rights once dividends have been paid in full. Dividends on common shares paid to shareholders are determined by the directors and approved at the annual shareholders' meeting. Preferred shareholders are entitled to a dividend of 10.00% of net profit, as determined under Charter.

As of December 31, 2002 and 2001, the Company's entire common and preferred shares were held by the Government of the Russian Federation. In accordance with Russian Accounting Regulations, earnings available for dividends are limited to income, retained earnings and other income, denominated in rubles, after certain deductions. The Board of Directors declared dividends on common and preferred shares of US$ 48.91 million and US$ 35.28 million at the exchange rate as of date of declaration for 2002 and 2001, respectively.

18. Income Taxes

The new Chapter 25 "Tax on the Profit of Organizations" of the Tax Code ("Chapter 25") came into force starting from January 1, 2002. The profits of a Russian legal entity are taxed at 24 per cent starting from 2002.

(all amounts are in thousands of US dollars, except as noted otherwise)

18. Income Taxes (continued)

Since January 1, 2002 tax legislation is somewhat more liberal in allowing a wider deductibility of expenses than before the Chapter 25 came into force. The Tax Code establishes that to be deductible an expense should be documented and economically justified. Depreciation charges for profits tax purposes also became more favorable from January 1, 2002. Year 2002 is the first year in which the taxpayers are required to maintain tax accounting registers. The Company's provision for income taxes as reported in the accompanying consolidated statements of income, for the years ended December 31 comprise the following:

	2002	2001
Current income taxes	**$ 211,000**	$ 184,478
Deferred income taxes (benefit)/provision	**(40,539)**	25,243
Total provision for income taxes	**$ 170,461**	$ 209,721

The provision for income taxes represents the total income tax expense for the Company and each of its subsidiaries. The Company does not file a consolidated tax return, rather each legal entity files separate tax returns with various authorities. Due to the fact that the deferred tax asset is an amount that is not likely to be realized, deferred income tax assets have been fully reserved.

(all amounts are in thousands of US dollars, except as noted otherwise)

18. Income Taxes (continued)

Temporary differences between the Russian statutory accounts, tax records and these consolidated financial statements give rise to the following deferred tax assets and liabilities as of December 31:

	2002	2001
Deferred tax asset arising from tax effect of:		
Site restoration provision	**$ 33,742**	$ 3,230
Accounts receivable	**9,484**	11,142
Accounts payable	**5,445**	–
Inventory obsolescence	**5,094**	4,355
Long-term investments	**1,518**	1,624
Short-term investments	**31**	–
Other	**–**	4,510
	55,314	24,861
Reserve for deferred income tax assets	**(20,053)**	(24,861)
Deferred tax asset	**35,261**	–
Deferred tax liability arising from tax effect of:		
Fixed assets	**(93,788)**	(99,066)
Deferred tax liability	**(93,788)**	(99,066)
Net deferred tax liability	**$ (58,527)**	$ (99,066)

(all amounts are in thousands of US dollars, except as noted otherwise)

18. Income Taxes (continued)

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 the following :

	2002	2001
Income before income taxes	**$ 494,184**	$ 688,476
Statutory income tax rate	**24.00%**	35.00%
"Expected" income tax expense	**118,604**	240,967
Add (deduct) tax effect of:		
Minority interest effect on income (including purchase of additional share of net assets of subsidiaries)	**5,153**	29,213
Equity share in affiliates effect	**487**	(846)
Change in valuation allowance reserved	**(4,808)**	35,895
Capital expenditures deductions	**–**	(92,772)
Permanent accounting differences arising from:		
Non-deductible items, net	**48,889**	1,733
Loss carried forward	**(2,417)**	–
Foreign currency translation differences	**7,905**	(6,265)
Other	**(3,352)**	1,796
Income taxes	**$ 170,461**	$ 209,721

19. Commitments and Contingencies

Capital Projects for Exploration and Development of Production Facilities, and Modernization of Refineries and Distribution Network

The Company and its subsidiaries are engaged in continuous capital projects for exploration and development of production facilities and modernization of refineries and distribution network. Management estimates the total cost of such programs to be US$ 536.3 million (unaudited) over the next year at its exploration and production subsidiaries and US$ 108.3 million (unaudited) over the next year at its refining and marketing subsidiaries. Depending on the current market situation actual expenditures may vary from the above estimates.

As of December 31, 2002 there was some US$ 173.0 million (unaudited) of purchase commitments outstanding in connection with these projects.

19. Commitments and Contingencies (continued)

Capital Projects for Exploration and Development of Production Facilities, and Modernization of Refineries and Distribution Network (continued)

The Company plans to finance a significant portion of these projects internally. At the same time, the Company is looking for external sources of financing. It is the opinion of management that the Company will be able to obtain all necessary financing to complete the existing and planned capital projects.

Taxation

Legislation and regulations regarding taxation and foreign currency transactions in Russia continue to evolve as the government manages the transformation from a command to a market-oriented economy.

During 2002, the Russian Federation enacted a new tax code with significant modifications from the prior law. Due to the lack of time and examination of findings by tax authorities is unknown how many aspects of the new tax code will be interpreted.

The various legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local, regional and national tax authorities, the Central Bank and Ministry of Finance. Instances of inconsistent opinions are not unusual.

The current regime of penalties and interest related to reported and discovered violations of Russia's laws, decrees and related regulations are severe. Interest and fines are levied when an understatement of tax liability is discovered. As a result, penalties and interest can result in amounts higher than unreported taxes.

The Company believes that it has paid or accrued all taxes that are applicable. Where practice concerning the provision of taxes was unclear, the Company has accrued tax liabilities based on management's best estimate. The Company's policy is to accrue for contingencies in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

Environmental Matters

Companies operating in the oil and gas industry are continuously subject to environmental risk. Management is of the opinion that the Company has met the local and Federal governments' requirements concerning environmental matters, and therefore believes that the Company does not have any material current environmental liabilities other than those provided.

19. Commitments and Contingencies (continued)

Insurance Matters

The Company insures its assets using intercompany insurance programs, which are reinsured through large western insurance companies. As of December 31, 2002, the amount of coverage on assets for such insurance amounted to US$ 925 million.

Russian insurance providers do not offer business interruption insurance. Currently, it is not common practice in Russia to obtain such insurance.

Investment in Sakhalin-1 PSA

The Company has certain commitments and obligations related to its retained interest in Sakhalin-1, PSA portions of that commitment for development will be funded from the project's own future cashflows and the carried interest agreements with ONGC as described in Note 8.

Social Commitments

The Company possesses social infrastructure assets for the use of employees. In accordance with the Presidential Decree on privatization in Russia, the Company is required to transfer the social infrastructure assets to the relevant local city administrations for no significant consideration. Accordingly, as the Company does not have ownership of these assets, they are not recorded in these financial statements.

The Company has incurred has incurred US$ 55.49 million and US$ 87.00 million in expenses of social nature for the years ended December 31, 2002 and 2001, respectively.

Charity Expenses

During 2002 Rosneft incurred US$ 77,5 million of charity expenses in various regions in Russia where the Company operates. Charity expenses are included as other expenses in the statements of income.

Participation in Caspian Pipeline Consortium

On February 6, 1997 the Company through Rosneft-Shell Caspian Ventures Ltd., a joint venture between Rosneft and Shell-Caspian, where the Company has 51.00 per cent ownership, signed an agreement with eight oil and gas companies and state authorities of Russia and Kazakhstan for assessing, financing, construction and use of an oil pipeline from Western Kazakhstan oil fields to Novorossiysk, Russia under the name of Caspian Pipeline Consortium (“CPC”). Rosneft-Shell has a 7.50 per cent interest in the CPC. As of June 15, 2003, the Company hasn’t paid for its’ share in Rosneft-Shell Caspian Ventrues Ltd.

19. Commitments and Contingencies (continued)

Participation in Caspian Pipeline Consortium (continued)

The agreement between Rosneft and Shell-Caspian is signed in the form of an arrangement whereby Shell-Caspian agreed to defray the Company's related costs of participation in the CPC and is entitled to all the revenue until all costs have been recovered, after which time Rosneft will share in both costs and revenues. The Company records its share of revenue, operating expenses and subsequent development costs only after the payout from the CPC occurs (i.e. when Shell-Caspian recoups its costs).

CPC project was finally commissioned in October 2001. The terminal received its first oil in August 2001 and is able to operate at its capacity of 28 million metric tons per annum ("MMTPA") (unaudited) that will be expanded subsequently up to 67 MMTPA, as may be required by forecasted throughput volumes. The pipeline pumps around 600,000 barrels per day (unaudited) to the West from the large Tengiz and other oil fields in Western Kazakhstan through Russia.

Guarantees

As of December 31, 2002 and 2001 the Company provided certain guarantees to third parties and subsidiaries. The majority of guaranties were provided by Rosneft for its subsidiaries in order to secure Bank loans received by subsidiaries, which are included in consolidated indebtedness. The Company is obliged to repay the whole amount of bank loans granted to third parties together with interest and other dues upon bank request in case the third party cannot satisfy such amounts payable. The Company's cannot substitute guarantees given by any novation agreement or mutual offset. The Company obligations under guarantees given are valid in case of change in loan agreements. The Company does not have the first right of demand. In case the Company makes payments under guarantees provided it has a right to claim the amount from the debtor.

(all amounts are in thousands of US dollars, except as noted otherwise)

19. Commitments and Contingencies (continued)

Guarantees (continued)

The maximum potential amount of future payments under guarantees provided by the Company to third parties is US$ 369 million. The summary of guarantees issued is comprised of the following:

Bank - lender	Loan debtors name	Maximum potential amount of future payment	Current carrying amount of outstanding liability as of December 31, 2002
ABN AMRO	Lucil-2 S.A.	150,000	150,000
ABN AMRO	Lucil-1 S.A.	150,000	94,200
EBRD	OJSC Rosneft-Sakhalinmorneftegaz	90,000	56,500
Ministry of Finance of RF (through WBRD)	OJSC Rosneft-Purneftegaz	75,070	46,260
Ministry of Finance of RF (through EBRD)	OJSC Rosneft-Purneftegaz	50,361	29,423
ABRR	OJSC Boshnyakovski ugolnyi razrez	3,187	3,187
ABN AMRO	Rosneft America Inc	700	700
Total		519,318	380,270

Other Contingencies

The Company's management believes that potential future contingencies, not recorded in the attached consolidated financial statements, are not significant and will not effect the future financial position of the Company.

20. Pension Plans

The Company and its subsidiaries make contributions to the State pension fund 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. The Company has no post-retirement benefits or significant other compensated benefits requiring accrual.

In 2000, the Company created a Pension Fund to finance non-government pensions for its employees. The Pension Plan requires monthly contributions by the employer calculated based on statutory minimal payroll payment. Payments from the Pension Fund to eligible participants are based on amount accumulated in the individuals' Pension account and the Company has no post-retirement costs that require accumulating. This plan is qualified as defined contribution plan under definition of SFAS No. 87 "Employers' Accounting for Pensions".

The Company contributed US$ 8.2 million and US$ 7.8 million into the Pension fund in 2002 and 2001, respectively.

21. Segment Information

Presented below is information about the Company's operating segments for the years ended December 31, 2002 and 2001, in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". The Company determined its operating segments based on differences in the nature of their operations. The performance of these operating segments is assessed by management on a regular basis, based upon Russian statutory accounting, stated in rubles. For the purposes of these consolidated financial statements, this management reporting, by operating segment, has been restated into US$. The exploration and production segments explore, find, develop and produce crude oil and natural gas. The refinery, marketing and distribution segments process crude oil and other feedstock into refined products and purchase, sell, transport crude oil and refined petroleum products. Corporate finance and other segments include drilling services, vessel hire management, banking and finance services, software support and other activities.

(all amounts are in thousands of US dollars, except as noted otherwise)

21. Segment Information (continued)

The accounting policies applied to each segment are consistent with the Russian statutory accounting policies as adjusted and applied to the consolidated financial statements. Intersegment sales and services are conducted at agreed prices between the Company and its subsidiaries. Intersegment receivables present outstanding balances between the Group companies, which arose in the normal course of business. The Company and its subsidiaries operations are conducted within the Russian Federation. The Company had crude oil export sales of US$ 1,126 million and US$ 666 million for the years ended December 31, 2002 and 2001, respectively.

Operating segments 2002:

	Exploration and Production	Refining, Marketing and Distribution	Finance and Others	Consolidated
Total revenues	$ 2,291,310	$ 1,432,286	$ 197,862	$ 3,921,458
Less: intersegmental revenues	$ (836,832)	(319,770)	(86,123)	(1,242,725)
Revenues from external customers	$ 1,454,478	1,112,516	111,739	2,678,733
Operating income	$ 169,304	497,252	27,979	694,635
Interest income	$ (15,416)	(13,043)	(20,423)	(48,882)
Interest expense	$ 38,914	30,183	13,165	82,262
Equity share in affiliates	$ (288)	2,054	264	2,030
Depreciation, depletion and amortization	$ 230,201	47,786	4,423	282,410
Provision for income taxes	$ 68,514	76,074	25,873	170,461
Investments in equity method investees	$ 126,141	78,961	32,655	237,757
Capital expenditures	$ (274,641)	(135,128)	(9,764)	(419,533)
Total assets	$ 3,481,670	$ 1,189,204	$ 523,027	$ 5,193,901

(all amounts are in thousands of US dollars, except as noted otherwise)

21. Segment Information (continued)

Operating segments 2001:

	Exploration and Production	Refining, Marketing and Distribution	Finance and Others	Consolidated
Total revenues	$ 2,604,110	$ 548,085	$ 15,023	$ 3,167,218
Less: intersegmental revenues	$ (811,074)	(32,654)	(1,033)	(844,761)
Revenues from external customers	$ 1,793,036	515,431	13,990	2,322,457
Operating income	$ 387,315	202,790	8,054	598,159
Interest expense	$ 51,596	2,527	2,625	56,748
Equity share in affiliates	$ 13,598	(2,308)	–	11,290
Depreciation, depletion and amortization	$ 258,799	15,450	–	274,249
Provision for income taxes	$ 179,374	19,480	10,867	237,757
Investments in equity method investees	$ 75,527	–	29,912	105,439
Capital expenditures	$ (392,531)	(63,140)	(12,016)	(467,687)
Total assets	$ 3,591,994	$ 426,690	$281,857	$ 4,300,541

22. Fair Value of Financial Instruments and Credit Risk Management

A reasonable approximation of fair value of accounts receivable is not practical due to unavailability of their fair (market) estimates. Management expects such accounts receivable, net of allowances for doubtful accounts, to be settled in full within reasonable period of time. The carrying amount of all other financial instruments approximates their fair value.

The Company, in connection with its current activities, is exposed to various financial risks, such as foreign currency risks, interest rate risks and credit risks.

The Company manages these risks and monitors their exposure on a regular basis. The Company does not use hedge or derivative financial instruments.

23. Subsequent Events

Increase of Share Capital

On April 10, 2003 the share capital of Rosneft was increased by the issue of additional common stock. The Ministry of Property of Russian Federation contributed a vessel "Ispolin", which is in process of reconstruction. The issued stock comprised of 742,381 common shares valued at US$ 19,181 thousand (at the exchange rate at the date of contribution).

Acquisition of Severnaya-Neft

On April 24, 2003 Board of Directors of Rosneft approved the acquisition of 100 per cent of OJSC Severnaya-Neft's common stocks. As of the date of these consolidated financial statements the transaction was not completed.

Acquisition of Anglo Siberian Oil Company

On April 4, 2003 Rosneft made a bid to purchase 100 per cent of the shares of Anglo Siberian Oil Company (ASOC). On April 28, 2003 Rosneft's representatives were elected to Board of Directors of ASOC. As of the date of these consolidated financial statements the transaction was not finally settled.

Acquisition of LLC Komsomolskoye NGDU

On January 5, 2003 the Company completed the acquisition of 100 percent share in LLC Komsomolskoye NGDU for US$ 900, which will be primarily engaged in development of new oil sites at Komsomolskoye oil field.

Loans

In the period from January to April 2003, the Company obtained US$ 100 million additional financing under a long-term loan agreement with a Russian bank, which was signed in 2002. In January 2003 the Company obtained another loan from the same bank in the amount of US$ 150 million.

In April 2003, the Company obtained additional financing under a loan agreement with an international bank in the amount of US$ 70 million. As of June 15, 2003 the loan was fully repaid.

(all amounts are in thousands of US dollars, except as noted otherwise)

24. Supplemental Oil on Gas Disclosure (Unaudited)

In accordance with 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. All the Company's activities are held in Russia, which is considered as one geographic area.

Capitalized costs relating to oil and gas producing activities

	December 31, 2002	December 31, 2001
Proved oil and gas properties	**$ 4,275,380**	$ 3,948,203
Unproved oil and gas properties	**–**	90,815
Accumulated depreciation, depletion and amortization, and valuation allowances	**(2,212,215)**	(2,136,175)
Net capitalized costs	**$ 2,063,165**	$ 1,902,843

(all amounts are in thousands of US dollars, except as noted otherwise)

24. Supplemental Oil on Gas Disclosure (Unaudited) (continued)

Cost incurred in oil and gas property acquisition, exploration and development activities

	2002	2001
Acquisition of properties	**$ 10,452**	$ –
Exploration costs	**6,517**	44,222
Development costs	**433,027**	348,309
Total costs incurred	**$ 449,996**	$ 392,531

Results of operation for producing activities

	2002	2001
Revenues:		
Sales	**$ 1,245,271**	$ 936,634
Transfers	**836,832**	317,663
Total revenue	**2,082,103**	1,254,297
Production costs (excluding production taxes)	**647,689**	316,722
Exploratory expense	**6,517**	44,222
Depreciation, depletion and amortization	**230,201**	258,799
Taxes other than income	**403,242**	193,484
Related income taxes	**84,276**	179,374
Results of operation for producing activities	**$ 710,178**	$ 61,696

Transfers represent crude oil transferred for processing to the Company's subsidiaries. Such prices are valued at domestic market prices for crude oil.

Reserve quantity information

Proved reserves are the estimated quantities of oil and gas reserves which geological and engineering data demonstrate will be recoverable with reasonable certainty in future years from known reservoirs under existing economic and operating conditions.

Proved developed reserves are the quantities of reserves expected to be recovered through existing wells with existing equipment and operating methods. Due to the inherent uncertainties and the necessarily limited nature of reservoir data, estimates of reserves are subject to change as additional information becomes available.

(all amounts are in thousands of US dollars, except as noted otherwise)

24. Supplemental Oil on Gas Disclosure (Unaudited) (continued)

Company estimated net proved oil and gas reserves and changes thereto for the years ended December 31, 2002 and 2001 are shown in the table set out below.

	December 31,	
	2002	**2001**
	'000 bbl's	*'000 bbl's*
Beginning year reserves	**2,188,279**	1,169,867
Extensions, discoveries and revisions of previous estimates	**647,783**	1,122,340
Production	**(100,463)**	(103,928)
Ending year reserves	**2,735,599**	2,188,279
Proved developed reserves	**1,802,978**	1,400,807

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 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 10.0 per cent discount factor. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced.

(all amounts are in thousands of US dollars, except as noted otherwise)

24. Supplemental Oil on Gas Disclosure (Unaudited) (continued)

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 Group's proved oil and gas reserves. Estimates of proved reserves quantities are imprecise and change over time, as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The arbitrary valuation prescribed under SFAS No.69 requires assumptions as to the timing and the amount of future development and production costs. The calculations should not be relied upon as an indication of the Company's future cash flows or of the value of its oil and gas reserves.

	2002	2001
Future cash inflows	**$ 50,586,019**	$ 21,115,913
Future production and development costs	**(30,296,722)**	(14,391,356)
Future income tax expenses	**(3,666,991)**	(1,137,982)
Future net cash flows	**16,622,306**	5,586,575
Discount of estimated timing of cash flows	**(12,139,107)**	(3,587,994)
Discounted future net cash flows	**$ 4,483,199**	$ 1,998,581

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

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

	2002	2001
Discounted present value as of beginning of year	**$ 1,998,581**	$ 2,149,604
Sales and transfers of oil and gas produced, net of production costs and taxes other than income taxes	**(452,235)**	(744,091)
Extensions, discoveries and changes in price estimates	**2,046,644**	(1,316,858)
Changes in future development costs	**(789,365)**	(441,817)
Development costs incurred during the period	**(433,027)**	(348,309)
Revisions of previous quantity estimates	**2,506,602**	1,390,755
Net change in income taxes	**407,001**	104,091
Accretion of discount	**313,656**	261,601
Other changes	**(1,114,658)**	943,605
Discounted present value as of end of year	**$ 4,483,199**	$ 1,998,581