OJSC ROSNEFT OIL COMPANY

Consolidated Financial Statements

as of December 31, 2001 and 2000

Together with Report of Independent Public Accountants

Report of independent public accountants

To the Shareholders of OJSC Rosneft Oil Company:

We have audited the accompanying consolidated balance sheets of OJSC Rosneft Oil Company, a Russian open joint stock company (the "Company"), and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years 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 audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OJSC Rosneft Oil Company and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for the years ended December 31, 2001 and 2000 in conformity with generally accepted accounting principles in the United States.

Moscow, Russia
May 31, 2002

OJSC Rosneft Oil Company
Consolidated Balance Sheets
as of December 31, 2001 and 2000
(Currency-thousands of US$)

	Notes	2001	2000
ASSETS			
Current assets			
Cash and cash equivalents	3	127,374	75,980
Short-term investments	4	290,834	99,609
Accounts receivable, net of allowance for doubtful accounts of US$ 83,883 and US$ 84,530, respectively	5	345,422	258,651
Inventories	6	216,385	233,871
Prepaid expenses		99,578	59,316
Total current assets		**1,079,593**	**727,427**
Non-current assets			
Long-term investments	7	157,657	145,695
Oil and gas properties, net	8	1,902,843	1,736,214
Property, plant and equipment, net	9	891,604	830,464
Construction in progress	10	267,968	298,817
Other non-current assets		876	5,983
Total non-current assets		**3,220,948**	**3,017,173**
Total assets		**4,300,541**	**3,744,600**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	11	327,353	352,034
Short-term loans and current portion of long term debt	12	452,987	374,643
Accrued income and other taxes	13	78,943	124,508
Other current liabilities		5,852	-
Total current liabilities		**865,135**	**851,185**
Site restoration costs	14	131,148	103,547
Long-term debt	12	456,941	123,577
Deferred tax liability	16	99,066	94,690
Minority interest		880,348	1,165,479
Total liabilities		**2,432,638**	**2,338,478**
Shareholders' equity			
Common stock (Shares issued and outstanding: 88,733,312 for 2001 and 2000)	15	19,430	19,430
Preferred stock (Shares issued and outstanding: 1,446,047 for 2001 and 2000)	15	247	247
Retained earnings		1,848,226	1,386,445
Total shareholders' equity		**1,867,903**	**1,406,122**
Total liabilities and shareholders' equity		**4,300,541**	**3,744,600**

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

OJSC Rosneft Oil Company
Consolidated Statements of Operations
for the years ended December 31, 2001 and 2000
(Currency-thousands of US$)

	Notes	2001	2000
Revenues			
Oil and gas sales		936,634	1,176,312
Refined products and processing fees		1,134,000	1,045,245
Support services and other sales		251,823	245,216
Total revenues	18	2,322,457	2,466,773
Operating expenses			
Cost of sales:			
Cost of oil and gas sales		156,409	181,907
Cost of refined products and processing fees		492,495	376,613
Cost of support services and other sales		168,653	142,365
Total cost of sales		817,557	700,885
Selling, general and administrative		386,279	502,032
Exploratory expenses		44,222	37,243
Depreciation, depletion and amortization		274,249	222,364
Taxes other than income taxes		201,991	200,327
Total operating expenses		1,724,298	1,662,851
Operating income		**598,159**	**803,922**
Other income (expense)			
Interest income		24,749	9,574
Interest expense		(56,748)	(46,691)
Gain/(Loss) on disposals of fixed assets		12,656	(115)
Gain on sale of share of investments		282,160	466
Equity share in affiliates		11,290	21,221
Other non-operating (expenses), net		(110,027)	(46,466)
Minority interest		(94,503)	81,845
Currency translation gain / (loss)		20,740	(2,358)
Total other income		90,317	17,476
Profit before provision for income taxes		**688,476**	**821,398**
Provision for income taxes	16	(209,721)	(366,190)
Net profit		**478,755**	**455,208**
Dividends declared on preferred shares of subsidiaries		(16,974)	(13,980)
Net profit available for common shareholders		**461,781**	**441,228**
Basic and diluted profit per common share (dollars)		5.20	4.97
Average number of common shares outstanding (thousands of shares)		88,733	88,733

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, 2001 and 2000

(Currency-thousands of US$)

	2001	2000
Operating activities		
Reconciliation of net income to net cash provided by operating activities:		
Net profit	478,755	455,208
Non-cash activities	(60,176)	(371,150)
Currency translation loss on cash and cash equivalents	1,320	596
Depreciation, depletion and amortization	274,249	222,364
Investment income	(306,910)	(19,283)
Exploratory expenses	44,222	37,243
(Gain)/Losses on disposals and write-down of assets	(12,656)	22,116
Write-down of investments	2,304	18,930
Increase in deferred income taxes	4,376	94,690
Equity share in affiliates	(11,290)	(21,221)
(Decrease) in allowance for doubtful accounts	(647)	(14,090)
Minority interest	94,503	(81,845)
Interest received	18,468	2,144
Dividends received	6,291	11,141
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(86,125)	(58,149)
Decrease (increase) in inventories	17,487	(86,954)
(Increase) decrease in prepaid expenses	(40,262)	16,346
Increase in accounts payable and accrued liabilities	58,436	75,287
(Decrease) in accrued income and other taxes	(45,565)	(9,390)
Net cash provided by operating activities	436,780	293,983
Investing activities		
Capital and exploration expenditures	(397,495)	(285,307)
Proceeds from sale of property, plant and equipment	8,976	22,731
Purchase of short-term investments	(191,225)	(86,273)
Sales of short-term investments	-	13,687
Cash used in acquisition of additional shares in subsidiary	(400,973)	(90,704)
Sales of long-term investments	381,181	-
Purchase of and contribution to long-term investments	(101,996)	(23,314)
Net cash used in investing activities	(701,532)	(449,180)
Financing activities		
Proceeds from short-term debt	-	982,745
Repayment of short-term debt	(105,941)	(654,247)
Proceeds from long-term debt	901,527	36,435
Repayment of long-term debt	(433,958)	(175,920)
Proceeds from sale of treasury stock of subsidiaries	-	5,976
Common dividends paid	(21,060)	(7,072)
Preferred dividends paid by subsidiaries	(23,102)	(7,224)
Net cash provided by financing activities	317,466	180,693
Increase in cash and cash equivalents	52,714	25,496
Cash and cash equivalents at beginning of year	75,980	51,080
Effect of currency translation loss on cash	(1,320)	(596)
Cash and cash equivalents at end of year	127,374	75,980
Supplemental disclosures of cash flow information		
Cash paid for interest	63,713	35,686
Cash paid for income taxes	216,695	170,364
Income taxes paid under barter transactions	-	110,214
Supplemental disclosure of non-cash activities		
Capital expenditures made under barter transactions	(84,375)	(363,957)
Acquisition of investments and repayment of loans under barter transactions	-	(174,478)
Disposals of assets under barter transactions	24,199	167,285

OJSC Rosneft Oil Company
Consolidated Statements of Shareholders' Equity
for the years ended December 31, 2001 and 2000
(Currency-thousands of US$)

	Common stock	Preferred stock	Retained earnings	Shareholders' equity
Balance at December 31, 1999	19,430	247	973,626	993,303
Net profit for the year	-	-	455,208	455,208
Dividends declared on preferred shares of subsidiaries	-	-	(13,980)	(13,980)
Dividends on common stock	-	-	(28,409)	(28,409)
Balance at December 31, 2000	19,430	247	1,386,445	1,406,122
Net profit for the year	-	-	478,755	478,755
Dividends declared on preferred shares of subsidiaries	-	-	(16,974)	(16,974)
Balance at December 31, 2001	19,430	247	1,848,226	1,867,903

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

1 General

Description of Business

OJSC Rosneft Oil Company (the "Company" or "Rosneft") and its subsidiaries, (the "Group"), are principally engaged in exploration, production and sale of crude oil, and the refining, transportation and sale of petroleum products in the Russian Federation and overseas. 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, 2001, the State maintains a 100.00% interest in Rosneft.

Principal subsidiary companies included in the consolidated financial statements and ownership interests of Rosneft as of December 31, 2001 are as follows:

Name	Nature of Business	Total shares	Voting shares
		%	%
Exploration and production			
OJSC Rosneft-Purneftegas	Oil and gas production	75.28	81.13
OJSC Rosneft-Sakhalinmorneftegas	Oil and gas production	62.90	83.80
OJSC Rosneft-Krasnodarneftegas	Oil and gas production	50.91	59.17
OJSC Rosneft-Stavropolneftegas	Oil and gas production	50.72	61.45
OJSC Rosneft-Dagneft	Oil and gas production	38.00	50.67
OJSC Rosneft-Grozneftegas	Oil and gas production	51.00	51.00
OJSC Rosneft-Termneft	Oil and gas production	38.00	50.67
OJSC Rosneft-Sakhalin	Exploration	55.00	55.00
Refineries			
OJSC Rosneft-Tuapse Refinery	Petroleum refining	39.50	52.70
OJSC Rosneft-Komsomolsky Refinery	Petroleum refining	77.06	82.97
OJSC MOPZ Nefteproduct	Petroleum refining	65.42	87.23
Petroleum marketing and distribution			
OJSC ARTAG	Marketing and distribution	38.00	50.67
OJSC Rosneft-Altainefteproduct	Marketing and distribution	64.18	78.59
OJSC Rosneft – Arkhangelsknefteproduct	Marketing and distribution	38.00	50.67
OJSC Rosneft-Kabbalknefteproduct	Marketing and distribution	38.00	50.67
OJSC Rosneft-Kubannefteproduct	Marketing and distribution	38.00	50.67
OJSC Rosneft-Karachaevo-Cherkessknefteproduct	Marketing and distribution	85.99	87.46
OJSC Rosneft-Kurgannefteproduct	Marketing and distribution	38.00	50.67
OJSC Rosneft-Murmansknefteproduct	Marketing and distribution	38.00	50.67
OJSC Rosneft-Nakhodkanefteproduct	Marketing and distribution	38.00	50.67
OJSC Rosneft-Smolensknefteproduct	Marketing and distribution	38.00	50.67
OJSC Rosneft-Tuapsenefteproduct	Marketing and distribution	38.00	50.67
OJSC Rosneft-Yamalnefteproduct	Marketing and distribution	49.52	49.52

Other

OJSC Rosneft-Neftecomplect	Petroleum equipment supply	38.00	50.67
OJSC Rosnefteimpex NK Rosneft	Petroleum and product trading	38.00	50.67
OJSC CKB ASU Nefteproduct	Software support	38.00	50.67
LLC SK Neftepolis	Insurance	99.20	99.20
OJSC All-Russian Bank for Reconstruction and Development of Russian Regions	Bank services	57.39	57.39
OJSC Rosneft-Astra	Development, production and petroleum products sales	99.00	99.00
OJSC Rosneft-Finance	Finance services	46.50	46.50

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

During 2001, the Company extended its ownership in its major subsidiaries through a series of purchase transactions of additional shares amounting to US$ 400.9 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$ 37.7 million. This amount has been charged in consolidation against oil and gas properties (US$ 24.9 million) and property, plant and equipment (US$ 12.8 million) in accordance with the provisions of Accounting Principles Board Opinion ("APB Opinion") No. 16. On other transactions, the purchase price was lower than the acquired share of subsidiaries' net assets. These transactions were recorded on the consolidated level as an increase in oil and gas properties on US$ 42.6 millions and property, plant and equipment – US$ 6.7 millions.

During 2000, the Company extended its ownership in six of its subsidiaries through a series of purchase transactions of additional shares amounting to US$ 90.7 million. These transactions have been accounted for under the purchase method of accounting. The Company's share in the subsidiaries' net assets at the date of acquisition exceeded the purchase price by US$ 40.9 million. This had been charged, in consolidation, against oil and gas properties in accordance with the provisions of APB Opinion No. 16.

Russian Environment and Economic Conditions

Russia continues to undergo substantial political, economic and social changes. As an emerging market, Russia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. As a result and as reflected in the Government's debt default and ruble devaluation during August 1998, operations in Russia involve risks that are not typically associated with those in developed markets. Such risks persist in the current environment with results that include, but are not limited to, a currency that is not freely convertible outside of the country, onerous currency controls, low liquidity levels for debt and equity markets, and continuing high rates of inflation although the rate has decreased from the rate encountered in 1998 (see Note 2). Additionally, as Russia continues to move to a market economy, several laws have recently been enacted to fund economic growth and attract new investment.

As a result of predominately high oil prices in 2000 and relatively stable oil prices in 2001, better controls over working capital including cash flows and an improved management team, the Company's financial condition has generally improved. Management is of the opinion that the severe affects of the economic crisis triggered in August 1998 have subsided, that the potential environment is now more certain and, as a result, future operations will become more stable.

The accompanying consolidated financial statements do not include any adjustments that may result from the future clarification of the Russian economic uncertainties, the effect of which could be significant. Such adjustments, if any, will be reported in the Company's consolidated financial statements in the period when they become known and estimable.

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 following table summarizes the exchange rate of the ruble to 1 US dollar ("US$ "):

Date	Exchange Rate
As of December 31, 2001	30.14
As of December 31, 2000	28.16
As of December 31, 1999	27.00

As of May 31, 2002, the exchange rate was 31.31 rubles to 1 US dollar.

The Company's principal currency exchange rate risk relates to the ability of the Company to pay its US$ debts. The Company must maintain certain levels of crude oil and petroleum products exports to meet these obligations. For the years ended December 31, 2001 and 2000, the Company exported 67.68% and 74.63% of its crude oil production, respectively.

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.

Establishment of Prices

Prior to 1995, the Russian government determined the domestic price for the sale of crude oil, which was significantly lower than the price for which the same crude could be sold on the world market. During 1995, the government withdrew its price control of domestic crude. During 2001, the Group's domestic crude and refined product prices were approximately 52.00% and 79.00% of the respective world market price for equivalent crude and refined products (32.00% and 60.00%, respectively, during 2000).

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"). Accordingly, tax considerations embodied within the regulations result in significant departures from generally accepted accounting principles in the United States of America ("US GAAP").

The consolidated financial statements as of and for the years ended December 31, 2001 and 2000 have been reformatted for international presentation from the Russian statutory financial statements of the Company and adjusted to comply with US GAAP.

Principles of Consolidation

The operations of all significant subsidiaries, in which the Company directly or indirectly owns more than 50.00% of the common shares, and which the Company controls, are included in the consolidated financial statements. 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% are accounted for under the equity method of accounting. Investments in other companies are accounted for at cost and adjusted for estimated impairment.

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

Included in the consolidated financial statements as the subsidiaries are Rosneft-Finance and Rosneft-Yamalnefteproduct, in which the Company has less than 50.00% share, but over which it exercises significant control.

Minority Interest 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. Minority owners' interest in the Company's subsidiaries' net assets, is as follows:

Name	2001		2000	
	Minority interest	Minority interest share in net assets	Minority interest	Minority interest share in net assets
	%		%	
OJSC Rosneft-Purneftegas	24.72	212,196	62.00	490,326
OJSC Rosneft-Sakhalinmorneftegas	37.10	237,377	42.80	237,738
OJSC Rosneft-Krasnodarneftegas	49.09	70,199	62.00	81,572
OJSC Rosneft-Stavropolneftegas	49.28	41,171	54.47	73,157
OJSC Rosneft-Tuapsenefteproduct	62.00	85,835	62.00	74,084
OJSC Rosneft-Komsomolsky Refinery	22.94	12,360	62.00	33,448
OJSC Rosneft-Tuapse Refinery	60.50	18,814	62.00	18,283
Other		202,396		156,871
Total		880,348		1,165,479

Management Estimates

The preparation of the consolidated 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 consolidated 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$. The following table summarizes the annual rate of inflation for each year in the four-year period ended December 31, 2001.

For the Year Ended December 31, --	Annual inflation %
2001	18.60
2000	20.20
1999	36.50
1998	84.40

Monetary assets and liabilities have been translated at the rate prevailing at each balance sheet date. Non-monetary assets and liabilities have been translated at historical rates. Revenues, expenses and cash flows have been translated at monthly average rates. Translation differences resulting from the use of these rates have been accounted for in currency translation gains or losses in the accompanying consolidated statements of operations.

In accordance with Russian statutory regulations Companies' operations in Russia are made in rubles, consequently the Company's principal future operating cash flows (domestic 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 assets and liabilities. Such changes may also affect the Company's ability to realize assets as represented in terms of US$ in the accompanying consolidated financial statements.

The Company's management plans to increase crude oil production and exports of oil products in 2002.

Cash and Cash Equivalents

Cash represents cash on hand and in the Company's bank accounts and cash equivalents represent deposits with original maturity dates of three months or less. Foreign currency deposits are translated at year-end exchange rates.

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 doubtful customers.

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 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.

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

The recoverability of oil and gas properties is assessed whenever events or circumstances indicate a potential impairment. In such circumstances the Company assesses the carrying value of oil and gas properties against managements' best estimates of the undiscounted net future pre-tax cash flows. Revenues used in calculating future pre-tax cash flow are based on the ultimate selling price of the Company and the amount of oil and gas reserves. 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. 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.

As of December 31, 2001 and 2000, the Company used oil and gas reserves determined in accordance with the Society of Petroleum Engineers of the United States' definitions and independently estimated by DeGoyler and MacNaugton 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, 2001 and 2000.

Gains or losses arising from the sale of proved and unproved properties are recognized in income.

Sales of share in mineral properties

In February 2001, the Company signed an agreement with ONGC Videsh Ltd ("ONGC") in relation to the "Sakhalin 1" Production Sharing Agreement ("PSA"), and in accordance with the terms of that agreement and pronouncements of SFAS No. 19 "Financial Accounting and Reporting by Oil and Gas Producing Companies" for accounting for "carried interest" clauses, whereby from the date of the agreement ONGC agreed to fund the Company's portion of all costs of drilling, developing and operating the oil and gas fields and in return they are entitled to receive approximately 90.00% of the Company's portion of cost recovery oil until all of their costs have been recovered. The Company does not account for any costs or revenues until ONGC has recouped the costs it carries on behalf of the Company (See Note 7).

Property, Plant and Equipment

Property, plant and equipment are stated at historical cost translated as at the date of acquisition net of accumulated depreciation. The recoverability of property, plant and equipment is assessed whenever events or circumstances indicate a potential impairment. This assessment involves comparing the carrying value of the assets with management's best estimate of the future undiscounted cash flows to be generated by using the assets. Where this calculation indicates an impairment the asset is written down to its fair value, which is estimated based on management's best estimate of future discounted cash flows.

The cost of maintenance, repairs, and replacement of minor items of property is charged to 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 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 at the beginning of the period.

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 rigs	20 years

Refinery Shutdown Costs

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

Capitalized Interest

Interest is capitalized on expenditures made in connection with 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. In 2001 the Company capitalized US$ 12.6 million of interest. The amount of interest costs capitalized during 2000 was not significant.

Income Taxes

The Group is not subject to taxation on a consolidated basis. Current income taxes are provided on the accounting profit as determined under RAR after adjustments for certain items, which are not deductible for taxation purposes, and after consideration of tax allowances. In the Company's subsidiaries income tax rate ranged from 35.00% to 43.00% and from 30.00% to 38.00% for the years ended December 31, 2001 and 2000, respectively.

The accompanying consolidated financial statements reflect deferred income taxes of the Company and its subsidiaries using the liability method, which requires that deferred tax assets and liabilities be recorded based on enacted tax rates 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 16).

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 consolidated financial statements. For the years ended December 31, 2001 and 2000, comprehensive income equaled net income.

Earnings per Share

Earnings per 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

Currently in Russia there is no market for financial instruments. Management is of the opinion that receivables are liquid and collectible and an allowance for doubtful accounts is created as described in Note 5. Management expects payables and other borrowings to be settled as more fully described in Note 11 and 12.

As discussed in Notes 4 and 7, the Company has investments in certain Russian companies carried at cost. An impairment write down is recorded in accordance with the principles of SFAS No. 121.

The carrying amount of all other financial instruments approximates fair value.

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 judgement 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.

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.

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.

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 customs duties.

Retirement and Other Benefit Obligations

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 Group contributed US$7.8 million into the Pension fund in 2001.

Non-cash Transactions

A portion of the Company’s accounts is settled by non-cash transactions. These transactions are generally either in the form of direct settlement by goods or services to the final customer or through a chain of non-cash transactions. In such cases, both sales and purchases are recorded as a result of the non-cash transaction. Non-cash transactions have been recorded in the consolidated financial statements at the approximate market value of the goods or services provided.

New Accounting Standards

In July 2001, the FASB issued SFAS No. 141, “Business Combinations”, and SFAS No. 142, “Goodwill and Other Intangible Assets”. SFAS No. 141 requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001. SFAS No. 141 requires intangible assets to be recognized if they arise from contractual or legal rights or are “separable”, i.e., it is feasible that they may be sold, transferred, licensed, rented, exchanged or pledged. As a result, it is likely that more intangible assets will be recognized under SFAS No. 141 than its predecessor, APB Opinion No. 16 although in some instances previously recognized intangibles will be subsumed into goodwill.

Under SFAS No. 142, goodwill will no longer be amortized on a straight-line basis over its estimated useful life, but will be tested for impairment on an annual basis and whenever indicators of impairment arise. The goodwill impairment test, which is based on fair value, is to be performed on a reporting unit level. A reporting unit is defined as a SFAS No. 131 operating segment or one level lower. Goodwill will no longer be allocated to other long-lived assets for impairment testing under SFAS No. 121. Additionally, goodwill on equity method investments will no longer be amortized;

however, it will continue to be tested for impairment in accordance with APB Opinion No. 18, “The Equity Method of Accounting for Investments in Common Stock”. Under SFAS No. 142 intangible assets with indefinite lives will not be amortized. Instead they will be carried at the lower cost or market value and tested for impairment at least annually. All other recognized intangible assets will continue to be amortized over their estimated useful lives.

SFAS No. 142 is effective for fiscal years beginning after December 15, 2001 although goodwill on business combinations consummated after July 1, 2001 will not be amortized. Management does not expect the adoption of SFAS No. 141 and SFAS No. 142 to have a material impact on the financial position or the results of operations of the Company since it currently has no goodwill recorded in its consolidated Balance Sheets.

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, 2001 this would have resulted in an increase in fixed assets of US$ 56.2 million and a decrease in the site restoration provision of US$ 18.7 million.

In August 2001, the FASB issued SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”. SFAS No. 141 establishes a single accounting model for long-lived assets to be disposed of by sale consistent with the fundamental provisions of SFAS No. 121. Whilst it supersedes APB Opinion No. 30 “Reporting the Results of operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions” it retains the presentation of discontinued operations but broadens that presentation to include a component of an entity (rather than a segment of a business). However, discontinued operations are no longer recorded at net realizable value and future operating losses are no longer recognized before they occur. Under SFAS No. 144 there is no longer a requirement to allocate goodwill to long-lived assets to be tested for impairment. It also establishes a probability weighted cash flow estimation approach to deal with situations in which there are a range of cash flows that may be generated by the asset being tested for impairment. SFAS No. 144 also establishes criteria for determining when an asset should be treated as held for sale.

SFAS No. 144 is effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years, with early application encouraged. The provisions of the Statement are generally to be applied prospectively. The Company does not anticipate that adoption of SFAS No. 144 will have a material impact on its results of operations or its financial position.

In April 2002, the FASB issued SFAS No. 145 “Rescission of FASB statements No. 4, 44 and 64, Amendment of FASB statement No. 13 and Technical Corrections”. The principal change is that gains or losses from extinguishment of debt which are classified as extraordinary items by SFAS No. 4 will no longer be classified as such. The provisions of SFAS No. 145 are effective for fiscal years beginning after May 15, 2002 although early application of the statement related to the rescission is encouraged. The Company plans to adopt SFAS No. 145 for its fiscal year ending December 31, 2003. When adopted, prior extraordinary items related to extinguishment of debt will need to be reclassified.

3 Cash and Cash Equivalents

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

	2001	2000
Cash in bank and on hand – rubles	52,558	20,092
Cash in bank – hard currency	56,968	41,906
Restricted cash	3,712	8,872
Cash equivalents	14,136	5,110
Total cash and cash equivalents	127,374	75,980

Restricted cash secures letters of credit.

4 Short-term Investments

The composition of short-term investments as of December 31 is as following:

	2001	2000
Bank deposits	217,356	35,174
Other short-term investments	73,478	64,435
Total short-term investments	290,834	99,609

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

5 Accounts Receivable

Accounts receivable as of December 31, comprise the following (in US$ thousands):

	2001	2000
Trade receivables	176,289	141,916
Value Added Tax receivable	153,676	84,799
Other receivables	99,340	116,466
Less allowance for doubtful accounts	(83,883)	(84,530)
Total accounts receivable	345,422	258,651

The Company's accounts receivables are denominated primarily in rubles and are short-term in nature.

6 Inventories

Inventories as of December 31, comprise the following (in US$ thousands):

	2001	2000
Materials and supplies	112,024	122,539
Crude oil and petroleum products	104,361	111,332
Total inventories	216,385	233,871

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

7 Long-term Investments

Equity and other long-term investments as of December 31, comprise the following (in US$ thousands):

	2001	2000
Equity investments		
"Sakhalin 1" PSA	59,384	74,708
Polar Lights	22,536	21,305
LLC Geoilbent	16,001	8,646
OJSC Arkhangelskgeoldobycha	7,518	7,135
Others	-	2,308
	105,439	114,102
Other investments		
OJSC Gazprom	4,553	4,553
OJSC Razrez Krasnogorskiy	4,769	-
OJSC Kaspoil	3,714	-
OJSC Energiya Vostoka	3,650	-
OJSC Minley	1,714	-
OJSC Varust	1,418	-
Nefteprombank	3,526	3,645
State currency bonds	3,889	-
Other investments, at cost	24,985	23,395
Total long-term investments	157,657	145,695

Sakhalin 1 PSA

In June 1995, an agreement for the joint exploration and development of the Chayvo, Odoptu and Arkutun-Dagi oil, gas and condensate fields offshore Sakhalin Island, Russia was signed between Exxon Neftegas Limited (now ExxonMobil Limited) (30%), Sakhalin Oil Development Cooperation Company Limited (30.00%), CJSC Sakhalinmorneftegas-Shelf, a wholly-owned subsidiary of OJSC Rosneft-Sakhalinmorneftegas (23.00%) and OJSC Rosneft-Sakhalin, a subsidiary of the Company (17.00%). Exxon Neftegas Limited acts as the operator.

In August 2001, the Administration of Sakhalin and the corresponding State bodies approved the sale of OJSC Rosneft-Sakhalin and OJSC Sakhalinmorneftegas-Shelf 20.00% share in the Sakhalin-1 project. The share was sold to the ONGC, which obtained 11.50% of the shares of the joint venture held by OJSC Sakhalinmorneftegas-Shelf and 8.50% of the shares held by OJSC Rosneft-Sakhalin.

The Company's subsidiaries have signed carry finance agreements with ONGC such that the subsequent funding requirement for Sakhalin 1 project will be financed by ONGC.

The total contribution made by the Company amounted to US$ 23.6 million and US$ 24.4 million for the years ended December 31, 2001 and 2000, respectively. During 2001, oil was discovered and, consequently, in November 2001 commerciality of the project was declared. Production of oil is expected to start in 2005. Due to unsuccessful exploratory and drilling works in 2000, the investment was partially written down by US$ 7.9 million.

LLC Polar Lights Company (“PLC”)

PLC is a limited liability company owned 50.00% by Conoco Timan-Pechora Limited, 30.00% by OJSC Arkhangelskgeoldobycha and 20.00% by the Company. PLC’s primary emphasis has been the development of the Ardalin field, 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.

LLC Geoilbent

LLC Geoilbent is a limited liability partnership exploring and developing oil and gas fields. As of December 31, 2001 and 2000 the Company owned 33.0% in LLC Geoilbent.

OJSC Arkhangelskgeoldobycha

OJSC Arkhangelskgeoldobycha is engaged in exploration, production and development of crude oil and gas. As of December 31, 2001 and 2000 the Company owned 25.50% in OJSC Arkhangelskgeoldobycha.

Nefteprombank

Nefteprombank is a bank owned 25.99% by the Company as of December 31, 2001 and 2000.

OJSC Gazprom

The Company has a 0.087% share in the ordinary shares of RAO Gazprom as of December 31, 2001 and 2000. The unrealized gain on the this investment, calculated as the difference between the market value of the investments and historical costs, equaled to US$ 6.4 million and US$ 1.7 million as of December 31, 2001 and 2000, respectively.

8 Oil and Gas Properties, net

Oil and gas properties as of December 31, comprise the following (in US$ thousands):

	2001	2000
Oil and gas properties	3,888,761	3,643,566
Pipelines	150,257	150,257
Less: accumulated depletion	(2,136,175)	(2,057,609)
Net oil and gas properties	1,902,843	1,736,214

9 Property, Plant and Equipment, net

Property, plant and equipment as of December 31, comprise the following (in US$ thousands):

	2001	2000
Offshore drilling assets	168,276	170,156
Service vessels	145,721	118,678
Buildings	979,961	951,253
Plant and machinery	729,289	717,706
Vehicles and other equipment	285,216	240,592
Total cost	2,308,463	2,198,385
Less: Accumulated depreciation	(1,416,859)	(1,367,921)
Net property, plant and equipment	891,604	830,464

10 Construction in Progress

Construction in progress includes various construction projects and machinery and equipment delivered but not yet installed. As of December 31, 2001, construction in progress comprise the following (in US$ thousands):

	Construction Work in Progress	Machinery/ Equipment to be installed	Total
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
Buildings	102,256	-	102,256
Plant and machinery	151,897	11,348	163,245
Vehicles and other equipment	30,030	3,286	33,316
Total at December 31, 2000	284,183	14,634	298,817

11 Accounts Payable and Accrued Liabilities

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

	2001	2000
Trade accounts payable	133,380	108,930
Salary, insurance and other payable	38,102	17,867
Advances received	23,442	27,863
Dividends payable	14,151	41,340
Promissory notes payable	11,607	61,688
Other accounts payable and accrued liabilities	106,671	94,346
Total accounts payable and accrued liabilities	327,353	352,034

The Company's accounts payable are denominated primarily in rubles and are short-term in nature.

12 Short-term Loans and Long-term Debt

Short-term loans from banks and other organizations as of December 31, comprise the following (in US$ thousands):

	2001	2000
US$ denominated		
Bank loans	149,965	293,689
Other borrowings	9,055	-
Ruble denominated		
Bank loans	72,288	8,888
Other borrowings	25,195	9,786
	256,503	312,363
Current portion of long-term debt	196,484	62,280
Total	452,987	374,643

The US$ denominated loans bear interest at a range of 10.00% to 12.00% for the year ended December 31, 2001 and 6.00% to 12.00% for the year ended December 31, 2000. The ruble denominated loans bear interest at a range of 15.00% to 20.00% for the year ended December 31, 2001 and at a range of 5.00% to 30.00% for the year ended December 31, 2000.

Long-term debt as of December 31, comprise the following (in US$ thousand):

	2001	2000
Bank loans – US$ denominated	499,185	176,238
Bank loans – Ruble denominated	146,700	-
Other borrowings	7,540	9,619
	653,425	185,857
Less current portion of long term debt	(196,484)	(62,280)
Total long-term debt	456,941	123,577

For the year ended December 31, 2001 the US$ denominated debts due to banks bear interest at LIBOR plus 0.10% to LIBOR plus 12.87%, substantially all ruble denominated – LIBOR plus 3.90%.

For the year ended December 31, 2000 the US$ denominated debts due to banks bear interest at LIBOR plus 0.10% to LIBOR plus 4.00% .

As of December 31, 2001 the Company's collateral for short-term and long-term bank loans was hard currency export proceeds US$ 1,001.0 million and oil and gas properties and other fixed assets for the amount of 5,153.0 million rubles (US$ 171.0 million at the exchange rate as of December 31, 2001), promissory notes and other assets of 9,085.0 million rubles (US$ 331.0 million at the exchange rate as of December 31, 2001). Loans are also secured by equipment of 757.0 million rubles (US$ 25.0 million at the exchange rate as of December 31, 2001).

Debt Restructuring

During 2000, the Company and its subsidiaries OJSC Rosneft-Purneftegas, OJSC Rosneft-Sakhalinmorneftegas and OJSC Rosneft-Stavropolneftegas signed a restructuring agreement with the bank and agreed the new extended time frame for the repayment of the remaining amounts with all future interest payments rolled-up.

During 2001 the Company and its subsidiaries repaid certain amounts of outstanding debts and the total amount of debt to bank decreased to US$ 2.5 million.

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

	2001	2000
2001	-	62,280
2002	196,484	39,082
2003	197,503	19,943
2004	19,943	19,943
2005 and after	239,495	44,609
Total long-term debt	653,425	185,857

13 Accrued Income and Other Taxes

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

	2001	2000
VAT	20,205	38,635
Mineral Replenishment tax	105	6,404
Road Users tax	3,787	8,536
Excise tax	9,013	1,382
Royalties	4,025	5,353
Property tax	6,196	3,457
Income tax	11,144	22,493
Social Maintenance Tax	628	1,970
Other taxes	20,264	23,179
Fines, penalties and interest	3,576	13,099
Total accrued income and other taxes	78,943	124,508

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 (income tax), a turnover based tax, and payroll (social) taxes, together with others. In addition, the Company's subsidiaries are also subject to various industry taxes including excise, royalty and mineral replacement taxes. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies. Implementing regulations are often unclear or 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.

Generally, tax declarations remain open and subject to inspection for a period of three years. Management believes that the Company is in compliance with the tax laws affecting its operations. The fact that a year has been reviewed by the tax authorities does not necessarily close that year, or any tax declaration applicable to that year, from further review during the three year period.

14 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 2001 and 2000, 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 2001 of US$ 27.6 million related to the restoration costs is included as a component of the depreciation, depletion and amortization expense. During 2000, management of the Company reassessed its estimates of future site restoration costs and reduced the provision as a consequence, by US$ 4.9 million.

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. 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 Russian statutory reporting. However, if dividends are paid on common shares, the amount of dividends paid on preferred shares can not be less than the common dividends.

As of December 31, 2001 and 2000, the Company's entire stock was 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 a dividend on common shares of US$ 36.50 million and US$ 28.4 million at the exchange rate as of December 31, 2001 and 2000, for the years then ended, respectively.

16 Income Taxes

The Company's provision for income taxes as reported in the accompanying consolidated statements of operations, for the years ended December 31 comprise the following (in US$ thousands):

	2001	2000
Current income taxes	184,478	271,500
Deferred income taxes (credit)	25,243	94,690
Total provision for income taxes	209,721	366,190

The provision for income taxes represents the total income tax expense for the Company and each of its subsidiaries. Due to the fact that the deferred tax asset is a theoretical amount and will never actually be recovered, deferred income tax assets have been fully reserved.

Temporary differences between the Russian statutory accounts and these consolidated financial statements give rise to the following deferred tax assets and liabilities as of December 31 (in US$ thousands):

	2001	2000
Deferred tax asset arising from tax effect of:		
Fixed Assets	130,268	24,683
Accounts Receivable	11,142	15,914
Site Restoration Costs	3,230	28,298
Long-term Investments	1,624	15,789
Loans	-	18,151
Accounts Payable	-	4,431
Inventory Obsolescence	4,355	5,110
Other	4,510	6,858
	155,129	119,234
Reserve for deferred income tax assets	(155,129)	(119,234)
Net deferred tax asset	-	-
Deferred tax liability arising from tax effect of:		
Fixed Assets	(99,066)	(94,690)
Net deferred tax liability	(99,066)	(94,690)

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):

	2001	2000
Income before income taxes	688,476	821,398
Statutory income tax rate	35.00%	30.00%
"Expected" income tax expense	240,967	246,419
Add (deduct) tax effect of:		
Minority interest effect on income	29,213	(24,554)
Equity share in affiliates effect	(846)	-
Change in valuation allowance reserved	35,895	(46,309)
Effect of differences in depletion, depreciation and amortization	6,292	-
Effect of expenses, included under RAR into funds	2,752	-
Capital expenditures deductions	(92,772)	-
Charitable activities	(3,782)	-
Permanent accounting differences arising from:		
Investment credit & non-deductible items, net	(1,733)	64,999
Foreign currency translation differences	(6,265)	125,635
Income taxes	209,721	366,190

17 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$ 396.0 million (unaudited) over the next year at its exploration and production subsidiaries and US$ 171.8 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, 2001 there was some US$ 79.4 million (unaudited) of purchase commitments outstanding in connection with these projects.

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.

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.

Insurance Matters

The Company insures its assets using intercompany insurance schemes, which are reinsured through large western insurance companies. In 2001 amount of such insurance amounted to US$ 3.1 billion.

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

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 US$ 87.0 million and US$ 70.3 million in expenses of social nature for the years ended December 31, 2001 and 2000, respectively.

Investment in Sakhalin 1 PSA

Management is of the opinion that the gross future funding requirements for phase 1 of Sakhalin 1 PSA could be significant, estimated at US$ 3.4 billion (unaudited) over 7 years (unaudited). The subsequent phases of Sakhalin 1 PSA will be funded from the project's own future cashflows. With the sale of half of its share in Sakhalin 1 PSA to ONGC, the Company through its subsidiaries retains 20.00% in the project. The subsidiaries will be required to pay 20.00% of the subsequent funding on an as needed basis over the life of the agreement. However, the Company's subsidiaries have signed carry finance agreements with ONGC such that the subsequent funding requirement for Sakhalin 1 project will be financed by ONGC. The financing will be repaid solely out of the proceeds from the sales of hydrocarbons from the PSA. Subject to certain priority payments being made, the subsidiaries will be entitled to 10.00% of their share of hydrocarbons revenues, as defined in the PSA, until the debt is repaid. After the debt is repaid the subsidiaries are entitled to full stream of its sales proceeds after certain obligatory payments, as defined in the PSA. The Company has not guaranteed any obligations arising out of or in connection with the agreements signed by its subsidiaries.

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% 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% interest in the CPC.

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 will be able to operate at its capacity of 600,000 b/d (unaudited) in the first half of 2002. The pipeline will pump around 600,000 b/d (unaudited) to the West from the large Tengiz and other oil fields in Western Kazakhstan through Russia.

18 Segment Information

Presented below is information about the Company's operating segments for the years ended December 31, 2001 and 2000, 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.

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$ 665.7 million and US$ 1,119.0 million for the years ended December 31, 2001 and 2000, respectively.

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	209,721
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

Operating Segments 2000

	Exploration and Production	Refining, Marketing and Distribution	Others	Consolidated
Total revenues	1,587,323	1,192,629	324,144	3,104,096
Less: intersegmental revenues	(411,011)	(147,384)	(78,928)	(637,323)
Revenues from external customers	1,176,312	1,045,245	245,216	2,466,773
Operating income	521,201	271,600	11,121	803,922
Interest expense	22,412	19,610	4,669	46,691
Equity share in affiliates	21,221	-	-	21,221
Depreciation, depletion and amortization	205,927	16,437	-	222,364
Provision for income taxes	175,771	153,800	36,619	366,190
Investments in equity method investees	114,102	-	-	114,102
Capital expenditures	585,660	63,604	-	649,264
Total assets	1,797,408	1,572,732	374,460	3,744,600

19 Subsequent Events

In March 2002 the Company received a loan from ABN Amro for the amount of US$ 150.0 million for the purchase of crude oil for its further export.

In June 2002 the Company has signed a preliminary agreement with OJSC AKB Sberbank on the provision of a credit line for the total amount of US$ 250.0 million for the working capital needs.

20 Supplemental Information on Oil and Gas Activities (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, 2001	December 31, 2000
Proved oil and gas properties	3,948,203	3,718,214
Unproved oil and gas properties	90,815	75,609
Accumulated depreciation, depletion and amortization, and valuation allowances	(2,136,175)	(2,057,609)
Net capitalized costs	**1,902,843**	**1,736,214**

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

	2001	2000
Acquisition of properties – unproved, proved	-	-
Exploration costs	44,222	37,243
Development costs	348,309	548,417
Total costs incurred	**392,531**	**585,660**

Results of operation for producing activities

	2001	2000
Revenue		
Sales	936,634	1,176,312
Transfers	317,663	228,574
Total revenue	**1,254,297**	**1,404,886**
Production costs (excluding production taxes)	316,722	303,779
Exploratory expense	44,222	37,243
Depreciation, depletion and amortization	258,799	205,927
Taxes other than income	193,484	187,953
Related income taxes	179,374	175,771
Results of operation for producing activities	**261,696**	**494,213**

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 reserves include additional quantities of oil and gas reserves recoverable beyond the term of the license agreement which may result from extensions of currently proved areas or from applying secondary or tertiary recovery processes not yet tested and determined to be economic.

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.

Group companies' estimated net proved oil and gas reserves and changes thereto for the years ended December 31, 2001and 2000 are shown in the table set out below.

	December 31, 2001	December 31, 2000
	'000 bbl's	'000 bbl's
Beginning year reserves	**1,169,867**	**1,112,078**
Extensions, discoveries and revisions of previous estimates	1,122,340	153,608
Production	(103,928)	(95,819)
Ending year reserves	**2,188,279**	**1,169,867**
Proved developed reserves	1,400,807	711,734

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

The information provided in tables set out below does not represent management's estimate of the Group'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 Group's future cash flows or of the value of its oil and gas reserves.

	2001	2000
Future cash inflows	21,115,913	17,386,070
Future production and development costs	(14,391,356)	(9,573,711)
Future income tax expenses	(1,137,982)	(1,499,358)
Future net cash flows	5,586,575	6,313,001
Discount of estimated timing of cash flows	(3,587,994)	(4,163,397)
Discounted future net cash flows	**1,998,581**	**2,149,604**

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

	2001	2000
Discounted present value as at beginning of year	2,149,604	2,628,897
Sales and transfers of oil and gas produced, net of production costs and taxes other than income taxes	(744,091)	(913,154)
Extensions, discoveries and changes in price estimates	(1,316,858)	(512,801)
Changes in future development costs	(441,817)	(243,314)
Development costs incurred during the period	348,309	548,417
Revisions of previous quantity estimates	1,390,755	386,157
Net change in income taxes	104,091	36,748
Accretion of discount	261,601	313,205
Other changes	246,987	(94,551)
Discounted present value as at end of year	**1,998,581**	**2,149,604**