OJSC Rosneft Oil Company

Consolidated Financial Statements Prepared Under US GAAP
Years ended December 31, 2003 and 2002
With Report of Independent Auditors

OJSC Rosneft Oil Company

Audited Consolidated Financial Statements

Years ended December 31, 2003 and 2002

Contents

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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 sheets of OJSC Rosneft Oil Company, a Russian open joint stock company, and subsidiaries (the "Company") as of December 31, 2003 and 2002 and the related consolidated statements of income, changes in shareholder's 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 2003 and 2002, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 4 to the consolidated financial statements, in 2003 the Company adopted SFAS 143 *"Accounting for Asset Retirement Obligations."*

Ernst & Young (CIS) Limited

Moscow, Russia
June 15, 2004

OJSC Rosneft Oil Company

Consolidated Balance Sheets

as of December 31, 2003 and 2002

(Currency – thousands of US dollars)

ASSETS	Notes	2003	2002
Current assets:			
Cash and cash equivalents	**6**	**$ 235,212**	$ 278,231
Short-term investments	**7**	**428,678**	368,699
Accounts receivable, net of allowance for doubtful accounts of US$61,834 and US$39,516, respectively	**8**	**749,247**	639,893
Inventories	**9**	**336,571**	275,109
Deferred tax assets	**22**	**23,494**	–
Prepaid expenses		**67,889**	51,408
Total current assets		**1,841,091**	1,613,340
Non-current assets:			
Long-term investments	**10**	**288,629**	392,176
Oil and gas properties, net	**11,14**	**3,232,261**	2,063,165
Property, plant and equipment, net	**12,14**	**1,043,539**	820,959
Construction-in-progress	**13**	**368,222**	303,048
Deferred tax assets	**22**	**19,826**	–
Other non-current assets, net of allowance for impairment of US$667 and nil, respectively		**3,838**	1,213
Total non-current assets		**4,956,315**	3,580,561
Total assets		**$ 6,797,406**	$ 5,193,901
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	**15**	**$ 698,909**	$ 501,429
Short-term loans and current portion of long-term debt	**16**	**587,830**	283,992
Accrued income and other taxes	**18**	**130,771**	77,671
Deferred tax liability	**22**	**3,579**	–
Other current liabilities		**5,232**	–
Total current liabilities		**1,426,321**	863,092
Asset retirement obligations	**19**	**126,488**	140,591
Long-term debt	**16**	**1,822,047**	1,181,618
Deferred tax liability	**22**	**70,958**	58,527
Minority interest	**20**	**789,106**	756,931
Total liabilities		**4,234,920**	3,000,759
Commitments and Contingencies	**23**	**–**	–
Shareholder's equity:			
Common stock (shares authorized and outstanding: 89,475,693 in 2003 and 88,733,312 in 2002)	**17**	**19,454**	19,430
Preferred stock (shares authorized and outstanding: 1,446,047 in 2003 and 2002)	**17**	**247**	247
Additional paid-in capital	**17**	**19,157**	–
Accumulated other comprehensive income	**2**	**12,930**	–
Retained earnings		**2,510,698**	2,173,465
Total shareholder's equity		**2,562,486**	2,193,142
Total liabilities and shareholder's equity		**$ 6,797,406**	$ 5,193,901

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

OJSC Rosneft Oil Company

Consolidated Statements of Income and Comprehensive Income

for the years ended December 31, 2003 and 2002

(Currency – thousands of US dollars)

	Notes	2003	2002
Revenues			
Oil and gas sales	**21**	**$ 1,714,315**	$ 1,395,384
Refined products and processing fees	**21**	**1,731,848**	1,250,364
Support services and other sales	**21**	**194,869**	314,877
Total		**3,641,032**	2,960,625
Operating and other expenses			
Cost of extraction of oil and gas sold		**229,885**	185,205
Cost of production and purchased refined products, and processing fees		**566,974**	325,551
Cost of support services and other sales		**101,168**	182,087
Selling and administrative expenses		**238,852**	243,354
Pipeline tariffs and transportation costs		**391,962**	308,737
Exploration expenses		**18,470**	6,517
Depreciation, depletion and amortization		**302,061**	282,410
Accretion expense		**12,379**	–
Taxes other than income tax		**625,102**	450,237
Excise tax and export customs duties		**435,595**	281,892
Total operating expenses		**2,922,448**	2,265,990
Operating income		**718,584**	694,635
Other income/(expense)			
Interest income		**73,021**	48,882
Interest expense		**(110,056)**	(82,262)
Loss on disposals of property, plant and equipment		**(21,468)**	(3,903)
Loss on sale of investments		**(677)**	(14,342)
Equity share in affiliates' losses		**(293)**	(2,030)
Other expenses, net		**(133,947)**	(92,386)
Currency translation gain/(loss)		**64,258**	(32,938)
Total other expenses		**(129,162)**	(178,979)
Income before income tax		**589,422**	515,656
Income tax expense	**22**	**(200,985)**	(170,461)
Income before minority interest		**388,437**	345,195
Minority interest in subsidiaries' earnings		**(51,911)**	(21,472)
Income before cumulative effect from change in accounting principle		**336,526**	323,723
Cumulative effect from change in accounting principle, net of income tax	**4**	**49,616**	–
Net income		**386,142**	323,723
Other comprehensive income	**2**	**12,930**	–
Comprehensive income		**$ 399,072**	$ 323,723

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

Consolidated Statements of Changes in Shareholder's Equity for the years ended December 31, 2003 and 2002

(Currency – thousands of US dollars)

	Common stock	Preferred stock	Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Shareholder's equity
Balance at December 31, 2001	$ 19,430	$ 247	$ –	$ –	$ 1,885,021	$ 1,904,698
Net income for the year	–	–	–	–	323,723	323,723
Dividends declared on common stock	–	–	–	–	(35,279)	(35,279)
Balance at December 31, 2002	$ 19,430	$ 247	$ –	$ –	$ 2,173,465	$ 2,193,142
Share issue and premium	**24**	**–**	**19,157**	**–**	**–**	**19,181**
Other comprehensive income	**–**	**–**	**–**	**12,930**	**–**	**12,930**
Net income for the year	**–**	**–**	**–**	**–**	**386,142**	**386,142**
Dividends declared on common stock	**–**	**–**	**–**	**–**	**(48,909)**	**(48,909)**
Balance at December 31, 2003	**$ 19,454**	**$ 247**	**$ 19,157**	**$ 12,930**	**$ 2,510,698**	**$ 2,562,486**

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, 2003 and 2002

(Currency – thousands of US dollars)

	2003	2002
Operating activities		
Net income	**$ 386,142**	$ 323,723
Reconciliation of net income to net cash provided by operating activities:		
Non-cash activities	**(33,327)**	(36,927)
Currency translation (gain)/loss on cash and cash equivalents	**(15,955)**	9,777
Cumulative effect from change in accounting principle net of income tax	**(49,616)**	–
Depreciation, depletion and amortization	**302,061**	282,410
Exploration expenses	**18,470**	6,517
Loss on disposals of property, plant and equipment	**21,468**	34,854
Deferred income tax	**(43,291)**	(40,539)
Increase in site restoration provision	**12,379**	9,443
Equity share in affiliates' losses	**293**	2,030
Increase/(decrease) in allowance for doubtful accounts	**22,985**	(44,367)
Minority interests in subsidiaries' earnings	**51,911**	21,472
Changes in operating assets and liabilities net of acquisitions:		
Increase in accounts receivable	**(131,672)**	(174,991)
Increase in inventories	**(61,462)**	(58,581)
Increase in prepaid expenses	**(16,481)**	(26,943)
Increase in other non-current assets	**(2,715)**	(337)
Increase in accounts payable and accrued liabilities	**216,453**	196,443
Increase/(decrease) in accrued income and other taxes	**53,100**	(1,272)
Increase/(decrease) in other current liabilities	**5,232**	(5,852)
Net cash provided by operating activities	**735,975**	496,860
Investing activities		
Capital and exploration expenditures	**(764,979)**	(387,402)
Proceeds from sale of fixed assets	**5,719**	12,395
Acquisitions of short-term investments	**(613,633)**	(389,913)
Proceeds from sale of short-term investments	**440,016**	276,358
Acquisitions of entities and additional shares in subsidiaries	**(729,448)**	(116,074)
Proceeds from sale of long-term investments	**464,682**	7,599
Purchase of long-term investments	**(324,447)**	(270,025)
Net cash used in investing activities	**(1,522,090)**	(867,062)
Financing activities		
Proceeds from short-term debt	**1,485,342**	42,680
Repayment of short-term debt	**(1,525,710)**	(211,675)
Proceeds from long-term debt	**1,154,991**	1,122,676
Repayment of long-term debt	**(319,600)**	(397,999)
Preferred dividends of subsidiaries paid	**(18,973)**	(22,367)
Common dividends paid	**(48,909)**	(35,279)
Net cash provided by financing activities	**727,141**	498,036
(Decrease)/Increase in cash and cash equivalents	**(58,974)**	127,834
Cash and cash equivalents at beginning of year	**278,231**	160,174
Effect of currency translation on cash	**15,955**	(9,777)
Cash and cash equivalents at end of year	**$ 235,212**	$ 278,231

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

OJSC Rosneft Oil Company

Consolidated Statements of Cash Flows (continued)

for the years ended December 31, 2003 and 2002

(Currency – thousands of US dollars)

	2003	2002
Supplemental disclosures of cash flow information		
Cash paid for interest (net of amount capitalized)	**$ 91,919**	$ 70,904
Cash paid for income taxes	**198,719**	160,034
Supplemental disclosure of non-cash activities		
Income taxes off-sets	**48,750**	23,090
Non-cash capital expenditures	**(60,510)**	(66,964)
Non-cash disposal of assets	**27,183**	30,037
Acquired value of fixed assets under capital lease (see Note 14)	**(88,456)**	–
Acquisitions		
In June 2003, the Company purchased 100% of OJSC Northern Oil for US$ 622.6 million. As a result, the Company acquired the following assets and liabilities:		
Oil and gas properties, and property, plant and equipment	**242,626**	–
Other assets	**37,085**	–
Short-term loans and long-term debt	**(131,994)**	–
Other liabilities	**(43,920)**	–
Short-term loans and long-term debt of other companies purchased in 2003	**$ (17,251)**	$ –

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

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 (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, 2003, the State through the Ministry of Property maintains a 100 % 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 until they are extracted. 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 several licenses issued by Regional authorities in areas where its subsidiaries are located.

In addition, the Company has been participating in Production Sharing Agreements (PSAs). As a result, Rosneft has certain rights to developing license blocks according to the existing PSAs and may receive certain rights in the future.

Due to the limited capacity of Transneft pipeline system, the Pipeline Commission of the Russian Government sets the export quotas for each oil company based on the legislation on equal access to the oil pipeline system. In addition, the Company exports certain quantity of crude oil bypassing the Transneft system and thus has more favorable export capacities. In 2003 and 2002 the Company's export sales have approximated 51% and 50% 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.

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, 2003 are as follows:

Name	Nature of Business	Preferred and Common Shares	Voting Shares
		%	%
Exploration and production			
OJSC Rosneft-Purneftegaz	Oil and gas development and production	83.09	90.82
OJSC Rosneft-Sakhalinmorneftegaz	Oil and gas development and production	63.34	84.30
OJSC Rosneft-Krasnodarneftegaz	Oil and gas development and production	51.06	59.29
OJSC Rosneft-Stavropolneftegaz	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-Grozneftegaz	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	Oil and gas exploration and development	55.00	55.00
OJSC Severnaya Neft (Northern Oil)	Oil and gas development and production	100.00	100.00
OJSC Selkupneftegaz	Oil and gas development and production	66.00	66.00
Caspoil LLC	Oil and gas development and production	75.10	75.10
Rosneft International Ltd. LLC	Holding company for investments in oil and gas production entities	100.00	100.00
CJSC Vostokshelf	Field survey and exploration	100.00	100.00
RN- LLC Kazakhstan	Field survey and exploration	99.00	99.00
OJSC Dagneftegaz	Oil and gas development and production	81.22	81.22
Refineries			
OJSC Rosneft-Tuapse Refinery	Petroleum refining	39.53	52.70
OJSC Rosneft-Komsomolsky Refinery	Petroleum refining	77.31	83.31
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	84.65
OJSC Rosneft-Kabardino-Balkarskaya Toplivnaya Company	Marketing and distribution	38.00	50.67
OJSC Rosneft-Kubannefteproduct	Marketing and distribution	69.72	90.22
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	45.36	60.47
OJSC Rosneft-Nakhodkanefteproduct	Marketing and distribution	38.00	50.67
OJSC Rosneft-Smolensknefteproduct	Marketing and distribution	66.67	86.97
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	95.06	95.06
Other			
RN-Teleport LLC	Information technology	99.00	99.00
OJSC All-Russian Bank for Reconstruction and Development of Russian Regions (VBRR)	Bank services	50.98	50.98
CJSC FK Rosneft-Finance	Finance services	46.51	46.51
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
CJSC Sakhalinskie Proekty	Corporate planning	75.00	75.00
CJSC Vostochny Neftenalivnoy Terminal	Services	100.00	100.00

1. General (continued)

Nature of Operations (continued)

All of the above subsidiaries, except for Rosneft International Ltd., are incorporated in the Russian Federation.

Russian Business Environment

The Russian economy was deemed to be of market status with greater investment potential beginning from 2002. During 2003 and the first half of 2004 certain main rating agencies and organizations have reported increases to the credit rating of the Russian Federation, which is generally regarded as improving the attitude of investors to the Russian Federation. Increased credit rating cardinally changes the attitude of investors to the Russian Federation. Further, in the first half of 2004 the Russian Federation signed an agreement with the European Union on joining the World Trade Organization (WTO). It is generally understood that the Government activities are intended to stabilize and successfully develop the political and economic situation in Russia.

While there is a general view of an improving environment, the environment does still have certain traits of a market in transition, for example inflation is not low enough, lack of liquidity in the capital markets and the existence of currency controls, which cause the national currency to be illiquid outside of Russia. In addition laws and regulations, including interpretations, enforcement and judicial processes, continue to evolve in Russia. Regulations of taxes, currency operations, use of mineral resources, environmental protection and other issues are being liberalized which have influenced and continue to influence the Company's industry.

Currency Exchange and Control

Foreign currencies, in particular the US dollar and Euro, play a significant role in the underlying economics of many business transactions in Russia. For the oil and gas sector in particular, substantial export arrangements as well as investing and financing activities are conducted in hard currencies such as the US dollar.

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

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

2. Summary of Significant Accounting Policies

Form and Content of the Consolidated Financial Statements

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

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

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

Principles of Consolidation

The consolidated statements include business transactions of the subsidiaries in which the Company directly or indirectly owns more than 50% of common voting stock, or on which it exercises control. All significant intercompany transactions and balances have been eliminated. Investments in other significant entities in which the Company owns between 20% and 50% are generally accounted for under the equity method since the Company does not have absolute control, but rather significant influence. Investments in other companies are accounted for at cost and adjusted for estimated impairment. While the Company is not subject to the full provisions of FIN 46 "*Consolidation of Variable Interest Entities*" it does consider in its consolidation principles whether the Company in substance controls certain legal entities.

Included in the consolidated financial statements as a subsidiary is CJSC FK Rosneft-Finance, in which the Company has less than 50.00 % share, but over which it exercises control. Therefore, it was decided to consolidate this company.

2. Summary of Significant Accounting Policies (continued)

Minority Interest in Subsidiaries

Minority interest in the consolidated balance sheets reflects minority owners' percentage of share 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's subsidiaries are entitled to a dividend of 10.00 % of statutory net profit, as generally determined under the Charters of Rosneft subsidiaries.

Foreign Currency Translation

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

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

As of December 31, 2003 and 2002, the official rates of exchange were 29.45 rubles for one US dollar and 31.78 rubles for US dollar, respectively. As of June 15, 2004 the official rate of exchange was 29.03 rubles for one US dollar.

Cash and Cash Equivalents

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.

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.

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.

2. Summary of Significant Accounting Policies (continued)

Financial Investments

All debt and equity securities of the Company were classified into three categories: marketable securities; securities available for sale; securities held to maturity.

Marketable securities are mainly acquired for sale in the nearest future. Securities held to maturity represent financial instruments which the Company wishes and is able to hold to maturity. All other securities, which do not fall into these two categories are considered securities available for sale.

Marketable securities and securities available for sale are carried at fair (market) value. Securities held to maturity are carried at cost adjusted for depreciation or increase in premiums or discounts. Unrealized gains or losses on marketable securities are included in the consolidated income statement. Unrealized gains and losses on securities available for sale are recorded as an independent element of total comprehensive income less related taxes until the time of sale. Realized gains and losses from the sale of securities available for sale are reported separately on each type of securities. Dividends and interest income are recognized in the consolidated income statement on an accrual basis.

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 to acquire proved and unproved properties are capitalized and amortized as discussed below. Costs of drilling exploratory wells, including stratigraphic test wells and seismic costs, are capitalized pending determination whether such properties contain or wells have found proved reserves which justify commercial development. If such reserves are not found, the drilling costs are charged to exploration 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. Costs of unproved properties are not amortized, rather are transferred to proved properties when such classification of reserves occurs. Unproved costs that do not result in proven reserves are impaired or written-off to expenses when such determination is made.

As of December 31, 2003 and 2002, the Company used oil and gas reserves determined in accordance with the US GAAP definitions and independently estimated by DeGoyler and MacNaughton. 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, 2003 and 2002. 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 27).

Gains and losses are not recognized for normal retirements or sales of oil and gas related facilities subject to composite depreciation, depletion and amortization. It is assumed that liquidated oil and gas properties are fully depleted.

2. Summary of Significant Accounting Policies (continued)

Investment In Production Sharing Agreements and Mineral Properties

The Company's primary investment in a PSA is through Sakhalin-1 (PSA 1), which is operated by ExxonMobil, one of the PSA participants. In February 2001, the Company signed an agreement with ONGC Videsh Ltd. ("ONGC") in relation to its interest in the PSA 1. Based on the terms of the arrangements and in accordance with SFAS 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 (see Note 10). The Company carries the investment in its remaining interest at the cost of that investment. Funding payments made by ONGC for the Company's portion of development costs are not recognized by the Company as an obligation and also do not increase assets of the Company. 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. Due to the participation percentage, the nature of the investment and other arrangements, the Company considers its investment in PSA 1 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.

The Company is party to other projects associated with the development of the Sakhalin shelf. Under those arrangements, other participants have agreed to pay for certain exploration costs on behalf of the Company for the respective projects. The exploration and development of these projects is in the initial stages. Costs incurred by Rosneft associated with these projects are capitalized. The Company does not presently have significant costs associated with these investments. The Company's accounting for its participation in these projects will be evaluated as terms and conditions develop to determine if it accounts for those interests as investments in mineral interest in oil and gas operations or equity investments.

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 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 SFAS 144 "*Accounting for the Impairment or Disposal of Long-Lived Assets"*. SFAS 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.

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

2. Summary of Significant Accounting Policies (continued)

Impairment of Long-Lived Assets (continued)

Revenues used in calculating future cash flows before tax are determined based on selling prices paid by end users and oil and gas reserves. Such forecasts might differ from SFAS 69 disclosure due to permitted differences in assumptions.

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

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

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 unit of production (ton, 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. For the cost of acquired proven reserves the unit of production rate is based on total proved reserves. 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 are depreciated 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	30-35 years
Plant and machinery	15 years
Vehicles and other equipment	6 years
Service vessels	20 years
Offshore drilling assets	20 years

Capitalized Interest

Interest is capitalized on expenditures made in connection with the capital projects that, theoretically, could have been avoided if expenditures for the assets had not been made. Interest and investments in unproved properties is only capitalized for the period when activities are in progress to bring these projects to their intended use. The Company capitalized US$33.8 million and US$24.5 million of interest expense in 2003 and 2002, respectively.

2. Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

SFAS 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 and cash equivalents, 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 Russian 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 109 *"Accounting for Income Taxes"*. This method gives consideration to the future tax consequences based on the effective tax rate associated with differences between the financial reporting and tax basis of assets and liabilities and gives immediate income statement effect to changes in income tax laws, including changes in the tax rates. A valuation allowance is recorded to reduce deferred tax assets when management believes it is more likely than not that a tax benefit will not be realized.

Recognition of Revenues

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

Comprehensive Income

The Company applies SFAS 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. As of December 31, 2003 the Company recorded accumulated other comprehensive income in the consolidated financials in the amount of US$ 13 million. This accumulate other comprehensive income resulted from the recognition of unrealized gain on the marketable securities classified by the Company as securities available for sale. There was no tax effect as a result of this transaction.

2. Summary of Significant Accounting Policies (continued)

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 or tax proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal or tax counsel evaluates the perceived merits of any legal or tax 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 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 or other uncertainties of an unusual nature which, in the judgment of management and its legal or tax counsel, may be of interest to shareholders or others.

Recent Accounting Standards

In 2003, the FASB issued and revised Financial Interpretation (FIN) 46 "*Consolidation of Variable Interest Entities*". FIN 46 requires a company to consolidate a variable interest entity if it is designated as the primary beneficiary of that entity even if the company does not have a majority of 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 immediately for any entity created after December 31, 2003. For all other entities the standard must be applied by the beginning of the first annual period beginning after December 15, 2004.

Presently the Company is reviewing the financial relations to determine any variable interest entities.

3. Change in Classifications

The Company changed the accounting policy of recognizing revenues in the statement of income. Beginning with the 2003 consolidated financial statements, revenues include export customs duties and excise tax. Revenues for 2002 were corrected accordingly. This change had no effect on the net income for the period, since the respective export customs duties and excise tax have been accounted for in a separate line, export customs duties and excise tax, in the statement of income.

Historical cost of part of oil and gas properties for certain minor subsidiaries as of December 31, 2002, was presented net of accumulated depreciation, depletion and amortization due to system limitations. The Company made the required adjustments in the opening balance of historical cost and accumulated depreciation, depletion and amortization in the amount of US$181.3 million. The Company made a similar adjustment of the opening balance of historical cost and accumulated depreciation of property, plant and equipment in the amount of US$116.5 million.

3. Change in Classifications (continued)

In 2003, the Company made adjustments in reclassification of construction-in-progress assets and property, plant and equipment between the construction-in-progress classification.

These adjustments did not have any effect on the totals of oil and gas properties, property, plant and equipment and construction-in-progress as of December 31, 2002.

4. Change in Accounting Principle

Effective January 1, 2003 the Company adopted the provisions of SFAS 143 "*Accounting for Asset Retirement Obligations*". This Standard is applicable to the liabilities from legal obligations related to the retirement of long-term tangible assets upon expiry of their useful life. SFAS 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.

As of December 31, 2003, the Company recorded an adjustment for accumulated effect of change in accounting principle resulting from the required application of this Standard increasing net income by US$49.6 million, net of income tax. Application of this Standard resulted in the increased net book value of fixed assets by US$23.4 million, decrease of liabilities related to the retirement of assets by US$41.8 million, increase of deferred tax liabilities by US$15.6 million. The pro-forma effect in 2002 (prior to adoption) is not significant.

5. Acquisition of subsidiaries and equity investments

Northern Oil

In June 2003, Rosneft purchased 100.00% of an exploration and production company OJSC Northern Oil, a company registered in Russia. The principal activity of the company is the research and exploitation of hydrocarbon deposits within Northwest Russia. The total cash purchase cost amounted to 18,990 million rubles (US$ 622,6 million as of the payment dates).

The primary reason for the acquisition was to acquire licenses for the proved, probable and possible oil and gas reserves. According to the DeGolyer and MacNaughton Reserve Report as of December 31, 2003 proved reserves of OJSC Northern Oil were 25 million tones, probable reserves were 56 million tones. The discounted value of future net revenues for all reserves is US$ 1,639 million before considering certain commitments. Oil fields belonging to Northern Oil are located in the North-East of Komi Republic with the developed infrastructure and proximity to the Transneft pipeline system. In 2003, OJSC Northern Oil produced 2.3 million tones of oil (unaudited) (Note 27).

Net assets of OJSC Northern Oil as of the purchase date were US$ 89 million (unaudited). Therefore, the excess of the purchase price over net assets was allocated to proved and unproved oil and gas properties based on the proportion of the discounted value of future net revenues for proved and probable reserves of OJSC Northern Oil as reported in DeGolyer and MacNaughton Reserve Report adjusted for certain risk factors. The portion allocated to unproved properties is subject to annual impairment assessment. The Company believes that as of December 31, 2003 this portion is reflected at a fair value. The portion allocated to proved oil and gas properties is depleted using the average depletion rate of OJSC Northern Oil.

5. Acquisition of subsidiaries and equity investments (continued)

Others

During 2003, Rosneft acquired 100.00 % of the shares in Anglo-Siberian Oil Company (“ASOC”) for approximately US$ 76 million. The primary reason for the acquisition was to acquire control over the companies that hold licenses for the probable and possible oil and gas reserves in a promising region of Russia, which does not have developed infrastructure and transportation system. According to the DeGolyer and MacNaughton Reserve Report as of December 31, 2003 proved reserves of ASOC comprise 24 million tones of oil and gas, probable reserves comprise 41 million tones of oil and gas. Discounted future net revenues in accordance with the Reserve Report comprise US$ 1,085 million.

The excess of the purchase price over net assets was allocated to proved and unproved oil and gas properties based on the proportion of the discounted value of future net revenues for proved and probable reserves of ASOC as reported in DeGolyer and MacNaughton Reserve Report adjusted for certain risk factors. The portion allocated to unproved properties is subject to annual impairment assessment. The Company believes that as of December 31, 2003 this portion is reflected at a fair value. The portion allocated to proved oil and gas properties will be depleted using the average depletion rate of ASOC once production commences.

The consolidated results of ASOC are included in the Company’s results of operations effective May 16, 2003.

6. Cash and Cash Equivalents

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

	2003	2002
Cash in bank and on hand – rubles	**$ 93,002**	$ 117,557
Cash in bank – hard currency	**100,125**	24,826
Interest bearing deposits – hard currency	**12,630**	100,000
Cash equivalents and other	**29,455**	35,848
Total cash and cash equivalents	**$ 235,212**	$ 278,231

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.

As part of its cash management and credit risk function, the Company regularly evaluates the creditworthiness of financial institutions where it places its deposits. Banking relationships are primarily with Russian Branches of international banking institutions and certain select Russian banking entities.

7. Short-Term Investments

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

	2003	2002
Short-term loans issued	**$ 187,984**	$ 123,249
Short-term loans to related parties (see Note 10)	**199,399**	–
Short-term promissory notes	**20,845**	–
Bank deposits	**18,665**	244,315
Other	**1,785**	1,135
Total short-term investments	**$ 428,678**	$ 368,699

7. Short-Term Investments (continued)

Short-term investments consist of bank deposits, notes and loans issued, primarily ruble-denominated, with maturities between three and twelve months. Short-term loans to related parties are loans issued to CJSC Sevmorneftegaz (see Note 10).

8. Accounts Receivable, Net

Accounts receivable as of December 31, comprise the following:

	2003	2002
Trade receivables	**$ 196,026**	$ 182,965
Value added tax receivable	**339,837**	228,951
Advances to suppliers	**104,605**	150,916
Other taxes	**47,712**	15,516
Other	**122,901**	101,061
Less allowance for doubtful accounts	**(61,834)**	(39,516)
Total accounts receivable, net	**$ 749,247**	$ 639,893

The Company's accounts receivables are denominated primarily in rubles. Generally the Company does not require collateral for security on receivables. Therefore it is exposed to credit risk, which it manages through ongoing evaluation of the terms and conditions of credit granted or advances made.

9. Inventories

Inventories as of December 31, comprise the following:

	2003	2002
Materials and supplies	**$ 196,004**	$ 178,969
Crude oil	**70,035**	50,253
Petroleum products	**70,532**	45,887
Total inventories	**$ 336,571**	$ 275,109

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

10. Long-Term Investments

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

	2003	2002
Equity investments		
"Sakhalin-1" PSA	**$ 59,384**	$ 59,384
LLC Polar Lights Company	**29,260**	28,214
CJSC Sevmorneftegaz	**36,108**	150,159
Total	**124,752**	237,757
State currency bonds	**3,533**	52,338
Long-term loans	**74,006**	43,608
Other investments, at cost	**86,338**	58,473
Total long-term investments	**$ 288,629**	$ 392,176

10. Long-Term Investments (continued)

"Sakhalin-1" PSA

The terms of CJSC Rosneft-Astra and CJSC Rosneft-Sakhalinmorneftegaz-Shelf, the Company's subsidiaries' (hereinafter the "PSA Subsidiaries") share in Sakhalin-1 PSA include funding of the PSA Subsidiaries' carried interests by ONGC. In accordance with the share purchase agreement, ONGC undertakes to provide funding in the amount as per the agreement with the agreed-upon rate of return.

The terms of the carried interest agreements provide that the PSA Subsidiaries will maintain their operations and protect their respective interests in the Sakhalin-1 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% of the net funds associated with the retained interests PSA Subsidiaries in the development of the PSA. Rosneft has agreed to indemnify ONGC for losses or damages sustained by ONGC for failure of the PSA Subsidiaries to, in effect, maintain the retained interests and has further pledged the shares in the PSA Subsidiaries in support of the indemnity. The PSA Subsidiaries are entitled to 10% 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 PSA Subsidiaries' shares in the PSA revert back to PSA Subsidiaries in their entirety. As of December 31, 2003, ONGC has provided approximately US$ 312 million toward the funding of the PSA Subsidiaries' retained interest in the project costs.

Commerciality of Sakhalin-1 PSA was declared in 2001. Production is expected to start in 2005.

LLC Polar Lights Company ("PLC")

PLC is a limited liability company owned 50% by Conoco-Phillips, 30% by AGD and 20% by the Company as of December 31, 2002. PLC's primary emphasis has been the development of the Ardalin and satellite fields in the Timan-Pechora Basin located 125 kilometers south of the Barents Sea above the Arctic Circle. Development work on the Ardalin field began in late 1992 and the first oil was produced in 1994.

During 2003, the Company acquired an additional 30% interest in PLC. PLC shares were acquired in an exchange of 25% share in Arkhangelskgeoldobycha (AGD) for 30% share in PLC and 13% share in CJSC Rosshelf. According to the approach to the accounting of similar equity investments exchange, additional investment in PLC should be stated at the carrying cost of disposed investment in AGD, which was zero as of the transaction date due to prior year losses.

As a result of the acquisition, Rosneft's equity share in the underlying net assets of PLC exceeds its investment by approximately US$ 45.8 million. Rosneft attributes this excess to a favorable purchase of PLC's interest in reserves, therefore the positive difference will be accreted to income proportional to the depletion of oil and gas properties.

CJSC Sevmorneftegaz

In January 2002, Rosneft, through OJSC Rosneft-Purneftegas, and OJSC Gazprom, through CJSC Rosshelf, jointly established CJSC Sevmorneftegaz ("Sevmorneftegaz") with equal shares in equity. The cost of investment in Sevmorneftegas was US$ 0.017 million. Sevmorneftegaz is primarily engaged in exploration and production activity on Prirazlomnoye oil field, Shtokmanovskoye, Etypurovskoe and Vyngoyahinskoe gas-condensate fields, and Kharampurskoe oil and gas-condensate field.

At the moment, Prirazlomnoe oil field is being actively prepared for the exploration and development. The project is planned to be conducted under a PSA. During 2002 Sevmorneftegaz acquired an off-shore platform, which was delivered to the Sevmash plant in Severodvinsk for reconstruction. During 2003, the platform reconstruction was being performed and work was being undertaken to re-equip and build the platform deck and caisson.

10. Long-Term Investments (continued)

For the above activities Rosneft provided US$ 235 million to Sevmorneftegaz for these purposes, US$ 199 million under loan agreement secured by short-term notes and US$ 36 million in contributions to joint activity.

Long-Term Loans

Long-term loans represent loans issued by the Company to the third parties for more than 12 months.

Other Investments at Cost

Other investments at cost represent shares, promissory notes, bonds and other long-term investments, which are recorded in the books of subsidiaries of the Company.

11. Oil and Gas Properties, Net

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

	2003	2002
Oil and gas properties	**$ 5,406,903**	$ 4,176,722
Pipelines	**291,770**	279,927
Fixed assets under capital lease	**53,471**	–
Total cost	**5,752,144**	4,456,649
Less: accumulated depletion	**(2,519,883)**	(2,393,484)
Net oil and gas properties	**$ 3,232,261**	$ 2,063,165

Included in Oil and Gas Properties is US$ 242.9 million at 2003 and nil at 2002 related to costs of unproved properties. As described in Note 5, during 2003 the Company made two business acquisitions. The result of the purchase price allocation is that certain amounts were assigned to the value of unproved properties. The Company has present plans for exploration and evaluation activities associated with these properties. Based upon management's judgment of the circumstances, these investments are recoverable.

12. Property, Plant and Equipment and Leased Property, Net

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

	2003	2002
Offshore drilling assets	**$ 173,265**	$ 186,486
Service vessels	**96,532**	107,458
Buildings and constructions	**1,277,286**	1,155,563
Plant and machinery	**568,511**	491,301
Vehicles and other equipment	**292,354**	248,396
Fixed assets under capital lease	**34,985**	–
Total cost	**2,442,933**	2,189,204
Less: accumulated depreciation	**(1,399,394)**	(1,368,245)
Net property, plant and equipment	**$ 1,043,539**	$ 820,959

13. Construction-in-Progress

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

	2003	2002
Equipment to be installed	**$ 40,446**	$ 38,656
Buildings and constructions	**223,770**	218,002
Plant and machinery	**75,270**	22,499
Vehicles and other equipment	**28,736**	23,891
Total construction-in-progress	**$ 368,222**	$ 303,048

14. Capital Lease

In 2003 the Company started to participate in the development of leasing activities in the Russian Federation. In 2003 the Company entered into several leasing agreements for equipment and other assets. Fixed assets received under those leasing agreements are amortized (depleted) using the same methods of depreciation and depletion as used for the property, plant and equipment and oil and gas properties, which are owned by the Company.

The Company is leasing the following Fixed Assets:

	2003
Oil and gas properties	**53,471**
Less: accumulated depletion	**(2,423)**
Oil and gas properties, net	**51,048**
Property, Plant and Equipment	
Plant and machinery	**11,729**
Vehicles and other equipment	**23,186**
Other	**70**
Total	**34,985**
Less: accumulated depreciation	**(2,363)**
Property, plant and equipment, net	**32,622**
Total carrying value of leased assets	**83,670**

The aggregate maturity of capital lease payments outstanding at December 31, 2003 is as follows:

	2003
2004	**32,520**
2005	**34,281**
2006	**20,333**
2007	**3,164**
2008 and after	**6,860**
	97,158
Imputed interest	**(8,213)**
Net discounted lease payments	**88,945**

14. Capital Lease (continued)

The Company is mostly working with one leasing company. The special feature of this arrangement is that the Company provided loans to the leasing company for the purchase of oil and gas properties and property, plant and equipment, which were then leased to the Company under finance lease arrangements. Lease obligations in the amount US$ 89 million were netted with the loans given to the lessor in accordance with provisions in the leasing arrangements, because of the legal right to offset such obligations and receivables.

15. Accounts Payable and Accrued Liabilities

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

	2003	2002
Trade accounts payable	**$ 245,837**	$ 113,740
Salary, insurance and other payables	**48,942**	37,594
Advances received	**47,507**	18,044
Dividends payable	**22,077**	22,802
Vacation pay, fees and other payables	**2,248**	10,520
Promissory notes payable	**94,216**	101,178
Due to other banks	**98,771**	117,136
Obligatory insurance and pension reserves	**61,980**	30,678
Other	**77,331**	49,737
Total accounts payable and accrued liabilities	**$ 698,909**	$ 501,429

The Company's accounts payable are denominated primarily in rubles. Due to other banks in accounts payable represents cash at banks belonging to the Company's banking subsidiary's clients. Dividends payable represent dividends on preferred shares payable to subsidiaries' minority shareholders. Obligatory insurance and pension reserves are reserves recorded by the pension fund and insurance company owned by Rosneft

16. Short-Term Loans and Long-Term Debt

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

	2003	2002
US$ denominated		
Bank loans	**$ 63,168**	$ –
Other borrowings	**29,554**	–
Ruble denominated		
Bank loans	**7,796**	29,853
Other borrowings	**157,549**	34,417
	258,067	64,270
Current portion of long-term debt	**329,763**	219,722
Total short-term loans and current portion of long-term debt	**$ 587,830**	$ 283,992

Other US$ and ruble denominated borrowings include loans received by a subsidiary Bank of the Company in the amount of US$ 162 million.

The rate of interest on the Company's short-term loans denominated in US dollars was from LIBOR plus 4% to 8%. The ruble-denominated loans bear interest at a range of 7.5% to 23% for the year ended December 31, 2003 and at a range of 10% to 20% for the year ended December 31, 2002.

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

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

	2003	2002
Bank loans – US$ denominated	**$ 2,102,625**	$ 1,393,747
Long-term bond of a subsidiary bank	**19,522**	–
Other borrowings	**29,663**	7,593
	2,151,810	1,401,340
Less current portion of long-term debt	**(329,763)**	(219,722)
Non-current portion of long-term debt	**$ 1,822,047**	$ 1,181,618

The US$-denominated long-term loans bear the interest rate of LIBOR rate plus 1.25% to the fixed rate of 12.92%. Ruble-denominated loans bore the interest rate of 0% to 14.00%.

As of December 31, 2003 and 2002 the Company's collateral for short-term and long-term bank loans were oil and gas properties and other fixed assets in the amount of 4,072.5 million rubles (US$ 138.3 million at the exchange rate as of December 31, 2003), and 4,202.3 million rubles (US$ 132.2 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 maintain certain financial ratios at an agreed level, maintain main operations at a certain level, not to incur indebtedness, guarantees of indebtedness or similar assurances in excess of defined amounts or stated ratios, not to default on certain other debt agreements and others.

Under certain loan agreements, the Company must maintain an export contract/aggregate debt outstanding ratio, i.e. Coverage Ratio, ranging from 125% to 130%. This requirement applies to outstanding debt of approximately US$ 1,076 million as of December 31, 2003. The above covenant obliges the Company to maintain firm sales contracts settled in US dollars for which committed export volumes are calculated on the basis of minimum prices stipulated by the loan documentation. Such export volumes should correspond to the coverage ratio. As a requirement, the terms of concluding such covered contracts give the lender an express right of claim for contractual revenue which must be remitted directly to transit currency (US$-denominated) accounts with those banks in case of the Company's default on timely repayment of debt.

The aggregate maturity of long-term debt outstanding at December 31, 2003 is as follows:

	2003
2004	**$ 329,763**
2005	**654,673**
2006	**611,648**
2007	**344,313**
2008 and after	**211,413**
Total long-term debt	**$ 2,151,810**

17. Shareholder's Equity

The shareholder's capital account represents the authorized capital of the Company, as stated in its Charter. If dividends are paid on common shares, dividend rate per one preferred share may not be less than common share dividend rate.

In 2003, the share capital of the Company was increased by the issue of additional common stock. The Ministry of Property of Russian Federation contributed a vessel "Ispolin", which was being reconstructed. The issued stock comprised 742,381 common shares valued at US$ 19.18 million (at the exchange rate at the date of contribution). The share capital was thus increased by US$ 0.024 million (nominal value), and additional paid-in capital by US$ 19.16 million.

As of December 31, 2003 and 2002, 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 current-year income, retained earnings and other income, denominated in rubles, after certain deductions. The Board of Directors declared dividends on common shares of US$ 48.9 million at the exchange rate as of date of declaration relating to fiscal year 2002. As of June 15, 2004 there were no dividends declared and approved by the Board of Directors for the fiscal year 2003. The dividends are recognized in the period the declaration is made.

18. Accrued Income and Other Taxes

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

	2003	2002
Mineral extraction tax	**$ 46,641**	$ 59
Value added tax	**33,773**	18,672
Excise tax	**13,901**	12,454
Property tax	**11,542**	7,591
Corporate income tax	**8,140**	11,333
Other taxes	**16,774**	27,562
Total accrued income and other taxes	**$ 130,771**	$ 77,671

Russian taxes payable in 2003 include value added tax, corporate income tax ("income tax"), a number of turnover-based taxes, and payroll (social) taxes, together with others. The Company is also subject to excise duty taxes, which is specific for this industry during 2003.

19. Asset Retirement Obligations

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

- Exploration and Production – The Company's field exploration, development, and production activities includes assets related to: well bores and related equipment and operating sites, gathering and oil processing systems, oil storage and pipelines to main transportation trunks. Generally, its licenses and other operating permits require certain actions to be taken by the Company in the abandonment of these operations after the end of production. Such actions include well abandonment activities, equipment dismantlement and other reclamation activities. The Company's estimates of future abandonment costs consider present regulatory or license requirements and are based upon management's experience of the costs and requirement of such activities. Presently, the Company has not conducted significant offshore drilling and development activities for which it is a responsible party.

19. Asset Retirement Obligations (continued)

- Refining, Marketing and Distribution – This business segment covers refining operations, marine and other distribution terminals, and retail networks.

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

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

  The Company's marine and distribution terminals, as well as retail locations, operate on permit of local regulatory bodies and leasing arrangements. These arrangements generally direct the Company to take certain actions to abandon those operations. Such actions include dismantling of equipment and reclamation of land and other property. The Company's estimate of future abandonment costs considers these requirements. While there is a limited history of such activities in its operating areas, the Company has based its estimation of what it believes to be reliable estimations

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

US$ 9.4 million related to the restoration costs was included as a component of the depreciation, depletion and amortization expense in 2002.

The movement of asset retirement obligations is as follows (in US$ thousand):

Asset Retirement Obligation as of December 31, 2002	$ 140,591
Cumulative effect of adopting FAS 143 at January 1, 2003	(41,790)
Recognition of additional liabilities for new wells	16,770
Accretion expense	10,917
Asset Retirement Obligations as of December 31, 2003	$ 126,488

20. Minority Interests

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

Name	**2003** Minority interest (%)	**2003** Minority interest share in net assets	**2002** Minority interest (%)	**2002** Minority interest share in net assets
OJSC Rosneft-Purneftegaz	**16.91**	**$ 158,132**	16.91	$ 154,859
OJSC Rosneft-Sakhalinmorneftegaz	**36.66**	**231,242**	36.66	224,389
OJSC Rosneft-Krasnodarneftegaz	**48.94**	**84,686**	48.94	75,385
OJSC Rosneft-Stavropolneftegaz	**28.05**	**23,048**	28.05	21,650
OJSC Rosneft-Tuapse Nefteproduct	**62.00**	**114,839**	62.00	101,985
OJSC Rosneft-Komsomolsky Refinery	**22.69**	**12,063**	22.64	12,065
OJSC Rosneft-Tuapse Refinery	**60.47**	**29,711**	60.50	22,940
Other		**135,385**		143,658
Total		**$ 789,106**		$ 756,931

21. Revenues

Oil and gas sales include excise tax on gas of US$5.235 million and US$3.307 million, and export customs duty of US$271.863 million and US$146.806 million for 2003 and 2002, respectively. Refined products and processing fees include excise tax of US$24.813 million and US$35.928 million, and export customs duty of US$133.522 million and US$95.673 million for 2003 and 2002, respectively. Support services and other sales include export customs duty of US$ 0.162 million and US$ 0.178 million for 2003 and 2002, respectively.

22. Income Taxes

Income taxes for the years ended December 31, comprise the following:

	2003	2002
Current income taxes	**$ 244,276**	$ 211,000
Deferred income taxes	**(43,291)**	(40,539)
Total provision for income taxes	**$ 200,985**	$ 170,461

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.

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:

	2003	2002
Deferred tax asset arising from tax effect of:		
Asset retirement obligations	**$ 30,158**	$ 33,742
Fixed assets	**53,928**	38,813
Accounts receivable	**15,440**	9,484
Accounts payable	**–**	5,445
Inventory obsolescence	**5,771**	5,094
Long-term investments	**2,592**	1,518
Short-term investments	**2,673**	31
	110,562	94,127
Valuation allowance for deferred income tax assets	**(67,242)**	(58,866)
Deferred tax asset	**43,320**	35,261
Deferred tax liability arising from tax effect of:		
Long-term liabilities	**(7,492)**	–
Fixed assets and other	**(67,045)**	(93,788)
Deferred tax liability	**(74,537)**	(93,788)
Net deferred tax liability	**$ (31,217)**	$ (58,527)

Classification of deferred taxes:

	2003	2002
Current deferred tax asset	**$ 23,494**	$ –
Long-term deferred tax asset	**19,826**	35,261
Current deferred tax liability	**3,579**	–
Long-term deferred tax liability	**$ 70,958**	$ 93,788

22. 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 as follows:

	2003	2002
Income before income taxes	**$ 589,422**	$ 515,656
Statutory income tax rate	24.00%	24.00%
Theoretical income tax expense	**141,461**	123,757
Add (deduct) tax effect of:		
Equity share in affiliates effect	**70**	487
Change in valuation allowance reserved	**8,376**	(4,808)
Permanent accounting differences arising from:		
Non-deductible items, net	**70,037**	48,889
Loss carried forward	**(774)**	(2,417)
Foreign currency translation differences	**(15,782)**	7,905
Other	**(2,403)**	(3,352)
Income taxes	**$ 200,985**	$ 170,461

23. 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$ 489.8 million (unaudited) over the next year at its exploration and production subsidiaries and US$ 125.2 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.

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.

As of December 31, 2003 the Company has commitments jointly with OJSC Gazprom to finance the project ‘Prirazlomnoe’ in accordance with the annually approved budget via CJSC Sevmorneftegas (see Note 10). The total capital expenditure to reach the maximum capacity of this project by 2006 is US$ 900.09 million, including Rosneft’s share of US$ 463.92 million. Currently the Company is negotiating with various banks to attract financing for this project instead of financing by the Company.

Taxation Contingencies

Legislation and regulations regarding taxation and foreign currency transactions in Russia continue to evolve as a new market-oriented economy.

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. 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 is 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.

23. Commitments and Contingencies (continued)

Taxation Contingencies (continued)

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 and downstream energy industry are continuously subject to environmental risk. Management is of the opinion that the Company has met the requirements of environmental legislation, and, therefore, believes that the Company does not have any material current environmental liabilities other than those provided. However, legislation and other regulatory matters will continue to evolve and therefore will affect the Company’s compliance expenditures.

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.

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 to be accumulated.

This plan is qualified as defined contribution plan under definition of SFAS 87 *“Employers’ Accounting for Pensions”.*

The Company contributed US$ 17.1 million and US$ 8.2 million into the Pension Fund in 2003 and 2002, respectively.

Insurance Matters

The Company insures its assets using intercompany insurance programs, which are reinsured through large western insurance companies. As of December 31, 2003 and 2002, the amount of coverage on assets for such insurance amounted to US$ 2,264 million and US$ 925 million, respectively.

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 consolidated financial statements.

The Company has incurred US$ 80.55 million and US$ 55.49 million in expenses of social nature for the years ended December 31, 2003 and 2002, respectively.

23. Commitments and Contingencies (continued)

Charity Expenses

During 2003 and 2002 Rosneft incurred US$ 53 million and US$ 77 million of charity expenses in various regions of Russia where the Company operates. Charity expenses are included as other expenses in the consolidated statements of income.

Guarantees and Indemnity

As of December 31, 2003, the Company provided certain guarantees to subsidiaries and third parties. Several guarantees were provided by Rosneft for its subsidiaries in order to secure bank loans received by subsidiaries, which are included in the accompanying consolidated financial statements. The Company is obliged to repay the whole amount of bank loans together with interest and other dues upon bank request in case the borrower cannot satisfy such amounts payable. The Company cannot substitute guarantees issued by any novation agreement or mutual offset. The Company's obligations under guarantees issued are valid in case of any change in loan agreements. The Company does not have the first right of demand.

After the full payment of all obligations under the guarantee the Company has the right to subrogate its respective part of all bank claims against the debtor in accordance with the loan agreement. In case the Company makes payments under guarantees issued it has a right to claim the amount from the debtor.

The maximum potential amount of future payments under guarantees issued by the Company is US$ 229 million. The summary of guarantees issued is comprised of the following:

Bank - lender	Loan debtor	Maximum potential amount of future payment	Current carrying amount of outstanding liability as of December 31, 2003
EBRD	OJSC Rosneft-Sakhalinmorneftegaz	90,000	59,200
Ministry of Finance of RF (through WBRD)	OJSC Rosneft-Purneftegaz	75,070	34,647
Ministry of Finance of RF (through EBRD)	OJSC Rosneft-Purneftegaz	50,361	20,984
International Moscow Bank	CJSC RN-Leasing	10,000	10,000
VBRR	OJSC Boshniakovsky ugolny razrez	2,540	2,540
ABN AMRO	Rosneft America	700	700
Total		228,671	128,071

Because the above guarantees (except for CJSC RN-Leasing) are for consolidated entities, the outstanding liabilities and repayments are included in the consolidated activities of the Company. As described in Note 10, the Company has agreed to indemnify ONGC for losses in certain circumstances.

Litigation

In April 2004, the Nenets Autonomous Area ("NAA") Administration filed a suit to the Moscow Arbitration Court against OJSC Northern Oil about recovery of US$ 19 million principal obligation (which is a recorded obligation) and US$ 12 million penalty for the late payment of contributions to the social and economic development of the NAA under the license agreement with OJSC Northern Oil. In February 2003 OJSC Northern Oil signed an addendum to the license agreement on restructuring of contributions to the social and economic development of NAA.

23. Commitments and Contingencies (continued)

The court hearing of the case is due on June 23, 2004. In the opinion of the Company's lawyers, the prospects of a favorable court ruling are good.

License agreements

In accordance with license agreements the Company's subsidiary is obliged to conduct various environmental programs. For these purposes the Company has to expend at least US$ 78 million over the period of development of oil fields. In addition, it is obligated to make annual contributions to a Regional Authority for social obligations in the annual amount of $5 million through 2019.

Other Contingencies

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

24. Segment Information

Presented below is information about the Company's operating segments for the years ended December 31, 2003 and 2002, in accordance with SFAS 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. 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 hydrocarbons into refined products and purchase, sell, transport crude oil and refined petroleum products. Corporate finance and other segments include banking and finance services, drilling services, vessel hire management, software support and other activities. Substantially all of the Company's operations are conducted in the Russian Federation. Further the geographical regions within the Russian Federation have substantially similar economic and regulatory conditions. Therefore, the Company has not presented any separate geographical disclosure.

The significant 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 transfer prices between the Company and its subsidiaries. Intersegment receivables represent outstanding balances between the Group companies, which arose in the normal course of business. The Company allocates certain profits, losses and assets for its subsidiaries, which operate in various segments, in proportion to gross revenues these subsidiaries earn from activity of each segment.

The Company and its subsidiaries operated within the Russian Federation. The Company had crude oil export sales of US$ 1,564 million and US$ 1,126 million for the years ended December 31, 2003 and 2002, respectively.

24. Segment Information (continued)

Operating segments - 2003:

	Exploration and Production	Refining, Marketing and Distribution	Finance and Others	Consolidated
Total revenues	**$ 2,361,274**	**$ 1,751,344**	**$ 452,231**	**$ 4,564,849**
Less: intersegmental revenues	**(513,427)**	**(109,055)**	**(301,335)**	**(923,817)**
Revenues from external customers	**1,847,847**	**1,642,289**	**150,896**	**3,641,032**
Operating income	**285,585**	**374,225**	**58,774**	**718,584**
Interest income	**$ 10,601**	**$ 15,013**	**$ 47,407**	**$ 73,021**
Interest expense	**(43,998)**	**(38,608)**	**(27,450)**	**(110,056)**
Equity shares in affiliates' losses	**(293)**	**–**	**–**	**(293)**
Depreciation, depletion and amortization	**(246,460)**	**(43,712)**	**(11,889)**	**(302,061)**
Provision for income taxes	**(87,761)**	**(98,336)**	**(14,888)**	**(200,985)**
Investments in equity method investees	**124,752**	**–**	**–**	**124,752**
Capital expenditures and acquisitions	**(1,356,809)**	**(265,114)**	**(21,470)**	**(1,643,393)**
Total assets	**$ 3,746,249**	**$ 2,415,230**	**$ 635,927**	**$ 6,797,406**

Operating segments - 2002:

	Exploration and Production	Refining, Marketing and Distribution	Finance and Others	Consolidated
Total revenues	$ 2,003,947	$ 1,397,547	$ 194,187	$ 3,595,681
Less: intersegmental revenues	(399,356)	(153,431)	(82,448)	(635,235)
Revenues from external customers	1,604,591	1,244,116	111,739	2,960,446
Operating income	169,304	497,352	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' losses	(2,030)	–	–	(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	237,757	–	–	237,757
Capital expenditures	(242,510)	(135,128)	(9,764)	(387,402)
Total assets	$ 3,481,670	$ 1,189,204	$ 523,027	$ 5,193,901

25. Fair Value of Financial Instruments and Credit Risk Management

Management believes that 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.

26. Subsequent Events

Acquisitions

In 2004, the Company increased its share in CJSC Sakhalin Projects from 75% up to 100%.

Bank Loans

In January 2004, the Company obtained additional financing in the amount of US$ 50 million under a short-term loan agreement with a Russian bank made in 2003.

In May 2004, the Company signed a long-term loan agreement with a consortium of international banks in the amount of US$ 500 million. As of June 15, 2004 the Company obtained US$ 265 million under this agreement. US$ 150 million from this amount was used to repay a US$ 150 million loan obtained in March 2004.

In March 2004 the Company repaid ahead of maturity schedule one of the long-term loans to an international bank in the amount of US$ 59.3 million.

During the period from January 1, 2004 until June 15, 2004, the Company repaid long-term loans from international banks in accordance with the maturity schedule in the full amount of US$ 117.2 million.

Guarantees

On April 28, 2004 the Company signed a contract of guarantee with one of the Russian Banks for one of the credit line facilities in the amount of US$ 57 million, which was provided to CJSC Sevmorneftegas (see Note 10).

Taxes and Penalties

In April 2004, tax authorities requested one of the Company's subsidiaries to pay taxes, penalties and fines in the amount of US$ 57.6 million (1,698 million rubles at the exchange rate as of the year-end). The Company appealed this decision to a tax authority of a higher level. The Company's lawyers believe that after the appeal hearing the amount of taxes and penalties may decrease to US$ 26.8 million (790 million rubles at the exchange rate as of the year-end).

27. Supplemental Oil on Gas Disclosure (Unaudited)

In accordance with SFAS 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 conducted in Russia, which is considered as one geographic area.

Capitalized costs relating to oil and gas producing activities

	2003	2002
Proved oil and gas properties	**$ 5,509,199**	$ 4,456,649
Unproved oil and gas properties	**242,945**	–
Accumulated depreciation, depletion and amortization, and valuation allowances	**(2,519,883)**	(2,393,484)
Net capitalized costs	**$ 3,232,261**	$ 2,063,165

The share of the Company in the capitalized costs of equity investments was immaterial during 2003 and 2002.

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

	2003	2002
Acquisition of properties	**$ 698,962**	$ 10,452
Exploration costs	**18,470**	6,517
Development costs	**536,399**	433,027
Total costs incurred	**$ 1,253,831**	$ 449,996

None of the above costs relates to the Company's share in PSA 'Sakhalin 1'.

The share of the Company in acquisition, exploration and development expenditure of it's equity investments as of December 31, 2003 was:

- US$25.715 million Polar Lights Company ("PLC")
- US$4.750 million Sevmorneftegas

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

Results of operation for producing activities

	2003	2002
Revenues:		
Sales	**1,714,315**	1,395,384
Transfers	**133,532**	209,207
Total revenue	**1,847,847**	1,604,591
Production costs (excluding production taxes)	**354,818**	353,081
Exploratory expense	**18,470**	6,517
Depreciation, depletion and amortization	**246,460**	230,201
Taxes other than income	**540,812**	403,242
Related income taxes	**87,761**	68,514
Results of operation for producing activities	**599,526**	543,036

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 also include additional oil and gas reserves that will be extracted after the expiry date of the license agreements or may be discovered as a result of secondary and tertiary extraction which have not been checked for recoverability and economic feasibility. 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.

Company estimated net proved oil and gas reserves and changes thereto for the years ended December 31, 2003 and 2002 are shown in the table set out below.

	2003	2002
	'000 bbl's	*'000 bbl's*
Beginning year reserves, excluding minority interest	**2,735,599**	2,188,279
Extensions and revisions of previous estimates	**(241,632)**	659,614
Property acquisition	**375,127**	–
Production	**(123,209)**	(112,294)
Ending year reserves, excluding minority interest	**2,745,885**	2,735,599
Proved developed reserves, excluding minority interest	**1,841,547**	1,802,978
Total reserves, including minority interest	**3,336,293**	3,316,723

The share of OJSC Rosneft Oil Company in the total proved oil and gas reserves of it's equity investments as of December 31, 2003 is the following:

- 000 bbl's 44,450 PLC
- 000 bbl's 54,853 Sevmorneftegas

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

Reserve quantity information (continued)

Increase in production on 2003 is due to the purchase of OJSC Northern Oil (see Note 5). Management of the Company estimates that the annual oil production for Northern Oil will be 46.0 million barrels in 2007, which will make up 35% of the current oil production for the Company.

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 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 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 69 requires assumptions as to the timing and the amount of future development and production costs. The calculations should not be relied upon as an indication of the Company's future cash flows or of the value of its oil and gas reserves.

	2003	**2002**
Future cash inflows	**$ 51,707,953**	$ 50,586,019
Future production and development costs	**(28,946,614)**	(30,296,722)
Future income tax expenses	**(5,643,613)**	(3,666,991)
Future net cash flows	**17,117,726**	16,622,306
Discount of estimated timing of cash flows	**(11,592,957)**	(12,139,107)
Discounted future net cash flows	**$ 5,524,769**	$ 4,483,199

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

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

	2003	2002
Discounted present value as of beginning of year	**$ 4,483,199**	$ 1,998,581
Sales and transfers of oil and gas produced, net of production costs and taxes other than income taxes	**(952,217)**	(848,268)
Changes in price estimates	**1,070,657**	2,108,193
Changes in future development costs	**(477,636)**	(749,284)
Development costs incurred during the period	**536,399**	433,027
Revisions of previous quantity estimates	**(759,046)**	2,552,383
Net change in income taxes	**422,822**	407,001
Accretion of discount	**448,320**	313,656
Purchase of new oil and gas properties	**1,036,805**	–
Other	**(284,534)**	(1,732,090)
Discounted present value as of end of year	**$ 5,524,769**	$ 4,483,199

Discounted present value as of end of year does not include minority share in the amount of US$ 1,271.3 million as of December 31, 2003.