AO SIBERIAN OIL COMPANY

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 1996
TOGETHER WITH
REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of AO Siberian Oil Company:

We have audited the accompanying consolidated balance sheet of AO Siberian Oil Company, a Russian open joint stock company, and subsidiaries as of December 31, 1996, and the related consolidated statements of operations, changes in shareholders' capital and cashflows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Without qualifying our opinion, we draw attention to note 14 to the financial statements, which discusses the current status of negotiations with Federal tax authorities on the tax arrears of a subsidiary of the Company.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AO Siberian Oil Company and subsidiaries as of December 31, 1996, and the results of their operations and their cashflows for the year then ended in conformity with generally accepted accounting principles in the United States.

The consolidated financial statements of AO Siberian Oil Company and subsidiaries as of and for the year ended December 31, 1995, were compiled by us. The consolidated financial statements have been prepared based on the Russian statutory accounts, which were adjusted and reclassified on the basis of estimates of the effects of certain differences between Russian accounting regulations and generally accepted accounting principles in the United States. A compilation is limited to presenting in the form of financial statements information that is the representation of management. We did not audit or review those financial statements and, accordingly, we do not express an opinion or any other form of assurance on them.

ARTHUR ANDERSEN　　　　UNICON M/S

Moscow, Russia
September 15, 1997

AO Siberian Oil Company
Consolidated Statements of Operations
For the years ended December 31, 1996 and 1995
(Thousands of US Dollars)

	1996	1995 (unaudited)
Revenues		
Sales and services	$ 2 739 889	$ 2 425 441
Other	301 472	192 987
Total	3 041 361	2 618 428
Expenses		
Production costs	996 496	942 356
Selling, general and administrative	472 980	529 195
Cost of other sales	256 664	150 281
Depreciation, depletion and amortization	423 469	457 243
Maintenance and repairs	55 453	35 763
Taxes other than income taxes	891 164	441 608
Total	3 096 226	2 556 446
Operating (loss) income	(54 865)	61 982
Other income / (expense)		
Interest received and other income	8 547	7 158
Interest paid and other expense	(77 787)	(27 295)
Minority interest	35 116	(21 105)
Dividends on preferred stock of subsidiaries	(3 782)	(26 490)
Currency translation gain (loss)	162 324	(7 805)
Total	124 418	(75 537)
Income (loss) before provision for income taxes	69 553	(13 555)
Provision for income taxes	71 899	193 142
Net loss	$ (2 346)	$ (206 697)
Net loss per common share (dollars)	$ (0,0005)	$ (0,0458)
Average number of common shares outstanding (millions)	4 516	4 516

AO Siberian Oil Company
Consolidated Balance Sheets
As of December 31, 1996 and 1995
(Thousands of US Dollars)

	1996	1995 (unaudited)
Assets		
Current assets:		
Cash and equivalents	$ 18 796	$ 74 128
Short-term investments	83 651	70 063
Accounts receivable, net	503 403	283 252
Inventories, net	342 435	371 775
Prepaid expenses	4 958	14 497
Total current assets	953 243	813 715
Investments	33 634	24 110
Net oil and gas properties	5 015 043	4 856 447
Net property, plant and equipment	1 333 739	1 270 540
Construction in progress	264 479	185 072
Other noncurrent assets	5 008	3 325
Total assets	$ 7 605 146	$ 7 153 209
Liabilities and Shareholders' Capital		
Current liabilities:		
Short-term loans	$ 119 986	$ 133 593
Accounts payable and accrued liabilities	462 704	427 167
Income and other taxes	725 694	300 650
Other current liabilities	52 419	23 994
Total current liabilities	1 360 803	885 404
Long-term debt	14 000	-
Minority interest	3 988 321	4 023 437
Total liabilities	5 363 124	4 908 841
Shareholders' capital:		
Common stock	1 604	1 604
Reserves	2 449 461	2 449 461
Accumulated deficit	(209 043)	(206 697)
Total shareholders' capital	2 242 022	2 244 368
Total liabilities and shareholders' capital	$ 7 605 146	$ 7 153 209

AO Siberian Oil Company
Consolidated Statement of Cash Flows
For the year ended December 31, 1996
(Thousands of US Dollars)

Operating activities	
Reconciliation of net loss to net cash provided by operating activities:	
Net loss	$ (2 346)
Depreciation, depletion and amortization	423 469
Increase in provision for doubtful accounts	30 712
Increase in provision for materials and supplies	26 211
Minority interest	(35 116)
Changes in current assets and liabilities:	
Increase in accounts receivable	(250 863)
Decrease in inventories	3 129
Decrease in prepaid expenses	9 539
Increase in other noncurrent assets	(1 683)
Increase in accounts payable and accrued liabilities	35 537
Increase in income and other taxes	425 044
Increase in other current liabilities	28 425
Net cash provided by operating activities	692 058
Investing activities	
Net increase in short-term investments	(13 588)
Net increase in long-term investments	(9 524)
Purchase of capital assets	(724 671)
Net cash used in investing activities	(747 783)
Financing activities	
Reduction in short-term loans	(13 607)
Increase in long-term debt	14 000
Cash flow used in financing activities	393
Decrease in cash and equivalents	(55 332)
Cash and equivalents at beginning of year	74 128
Cash and equivalents at end of year	$ 18 796
Supplemental disclosures of cashflow information	
Cash paid for interest	$ 72 570
Cash paid for income and other taxes	$ 466 867

AO Siberian Oil Company
Statement of Changes in Shareholders' Capital
For the years ended December 31, 1996 and 1995
(Thousands of US Dollars)

	Common Stock	Reserves	Accumulated Deficit
Balance at December 31, 1994 (unaudited)	$ 1 604	$ 2 449 461	$ -
Net loss for the year	-	-	(206 697)
Balance at December 31, 1995 (unaudited)	1 604	2 449 461	(206 697)
Net loss for the year	-	-	(2 346)
Balance at December 31, 1996	$ 1 604	$ 2 449 461	$ (209 043)

1. Comparability of data

The accompanying notes to the consolidated financial statements include both audited and unaudited data. Due to the substantially different nature of work performed on audited and unaudited data and the significant change in the structure of the business and centralization of processes in May 1996 (see "Description of Business" below), any comparisons between them may be misleading. In addition, although the date of inception for AO Siberian Oil Company was September 30, 1995, the unaudited consolidated statement of operations for the year ended December 31, 1995 reflects pro forma adjustments based on the assumption that the group was in existence at January 1, 1995. See "Pro Forma Comparative Information" in note 2 for further details.

On August 14, 1997 unaudited financial statements were issued in connection with a Eurobond issue which included notes to the unaudited consolidated balance sheet of AO Siberian Oil Company and its subsidiaries as of December 31, 1995 and the related unaudited consolidated statement of operations for the year then ended. The audit of the financial statements for the year ended December 31, 1996 has led to a number of adjustments to the previously reported unaudited financial statements referred to above.

2. The Company

Description of Business

AO Siberian Oil Company (the "Company" or "Sibneft") is a vertically integrated Russian oil company. Its principal activities concern oil and gas exploration, production, refining and marketing.

The Company was created by Presidential Decree Number 872 dated August 24, 1995. On September 29, 1995 Sibneft's charter was approved when the Government of the Russian Federation issued Resolution Number 972. The Omsk Registration Chamber officially registered Sibneft on October 6, 1995. For the purpose of these financial statements, the date of inception of Sibneft is considered to be January 1, 1995.

Under the terms of the Presidential Decree, Sibneft received 51 percent of the voting common shares (38 percent of the charter capital) belonging to the Russian Federation in four companies: Noyabrskneftegaz ("Noyabrsk"), Omsk Refinery ("OR"), Noyabrskneftegasgeophysica ("Geofizika") and Omsknefteprodukt ("Nefteprodukt"). Noyabrsk is primarily engaged in the exploration, production and development of oil and gas from its fields in the south Yamalo-Nentsk autonomous region and the northern part of the Khanti-Mansisk autonomous region. OR's principal activity is the production of petroleum product at its refinery in Omsk, Western Siberia. Nefteprodukt carries out marketing operations through its retail outlets in the Omsk region. Geofizika provides exploration and technical services in the Noyabrsk region. Historically, Noyabrsk had close business relationships with both Geofizika and OR, while OR had close business links not only with Noyabrsk but also Nefteprodukt. The consolidation of these companies under Sibneft's control has had a significant impact on the method of operation of each of the companies.

During May 1996, in order to increase control over the cash flow of its subsidiaries, Sibneft began the implementation of a more integrated product flow between its production and refining subsidiaries. Prior to this point, Noyabrsk sold its crude to a number of customers including OR, while OR also purchased crude from other Russian suppliers and sold the resulting petroleum product to Nefteprodukt and other domestic and foreign customers. From May 1996, all production from Noyabrsk intended for domestic consumption has been sold directly to Sibneft for delivery to OR. The crude oil deliveries to OR are made under a processing agreement, whereby Sibneft retains title to the crude oil and finished products and compensates OR through a processing fee on a monthly basis. Sibneft subsequently sells these products to both domestic and foreign customers.

Russian Environment

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

Establishment of Prices

Prior to 1995, the Russian government determined the domestic price for the sale of crude oil that was significantly lower than the prices for which the same crude could be sold on the world market. During 1995, the government withdrew its price control of domestic crude allowing the price to increase. The price of domestic crude has increased through 1995 to date, however, the price remains below the price received for crude that is exported. As of December 31, 1996, the domestic price was approximately 35 percent of the world market price for equivalent crude. In addition, the amount of oil which Noyabrsk is allowed to export is also limited.

3. Summary of Significant Accounting Policies

Form and Content of the Consolidated Financial Statements

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

The financial statements presented herein have been reformatted for international presentation from the Russian statutory financial statements of the Company and its subsidiaries for the years ended December 31, 1996 and 1995 and adjusted to comply with US GAAP.

Principles of Consolidation

The consolidated financial statements are made up of the accounts of the Company and its subsidiary companies, Noyabrsk, OR, Geofizika, and Nefteprodukt (together referred to as "the Group"), in which the Company owns more than 50 percent of the voting common stock. All significant intercompany balances and transactions have been eliminated. The investment in Noyabrskneftecombank represents less than 1 percent of net assets of the Group and has not been consolidated. This investment is carried at cost.

Pro Forma Comparative Information

For comparison purposes the unaudited consolidated statement of operations for the year ended December 31, 1995 assumes that Sibneft came into being with effect from January 1, 1995. Accordingly, the results of the four subsidiaries have been combined to provide the result for 1995. The operations of the parent, Sibneft, were not significant during 1995.

The shareholders' equity accounts of the separate subsidiaries at the December 31, 1994 have been combined with all other shareholders' funds accounts to represent "Reserves". For periods subsequent to December 31, 1994, the results of the transactions of the group companies, to the extent that they affect reserves as at that date, have been and will be accounted for within this caption.

Intercompany transactions have been eliminated in the 1995 financial statements to the extent they were identifiable. It has been assumed that the percentage of minority interest remained constant throughout 1995.

The financial statements for the year ended December 31, 1994 have not been reformatted for international presentation and, accordingly, a statement of cash flows has not been prepared for the year ended December 31, 1995.

Equity

The Presidential Decree establishing Sibneft stated that the charter capital of the Company would be equal to 38 percent of the aggregate of the charter capitals of its four subsidiaries. The 38 percent of the aggregate of the Charter capitals of the four subsidiaries also gave Sibneft 51 percent of the voting common stock in each of the subsidiaries and represented the Government's ownership in these companies. This consolidation of the Government's ownership into one company established the share capital of Sibneft at 4,516,396,250 shares of 1.6 rubles each. For the purposes of these financial statements, the ruble value of the shares has been translated into US Dollars at the exchange rate prevailing at that date.

Management Estimates

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

Foreign Currency Translation

In 1996 and 1995, Russia experienced cumulative inflation in excess of 100 per cent over a three-year period, as determined by government statistics. In accordance with US GAAP for hyper-inflationary environments, ruble activity has been restated to US dollars as stated below. The exchange rate for $1 ranged from 3,550 to 5,130 rubles during 1995, and from 4,640 to 5,560 during 1996. Period-end exchange rates equaled 5,560 and 4,640 at 31 December 1996 and 1995, respectively.

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

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

Cash and equivalents

Cash and equivalents represent cash on hand and in the Group's bank accounts, as well as cash deposits with original maturity date of three months or less as of the year end. Foreign currency deposits are translated at year end exchange rates.

Inventories

Inventories consisting primarily of crude oil, petroleum products and materials and supplies at December 31, 1996 are stated at average cost and are valued at the lower of cost or market. A general reserve is established against slow moving and obsolete material and supplies.

Oil and Gas Properties

Oil and gas properties are accounted for under the full cost method of accounting. Accordingly, all costs associated with acquisition, exploration, and development of oil and gas reserves, including directly related overhead costs, are capitalized.

Investments in unproved properties and major development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized.

Russian financial information is maintained in historic ruble terms. However, the US dollar historic cost of oil and gas properties in the accompanying balance sheet was obtained using the same methodology applied to property, plant and equipment, as discussed below in "Property, Plant and Equipment". In addition, the net capitalized oil and gas costs are subject to a "ceiling test", which basically limits such costs to the aggregate of the "estimated present value" (future net revenues from proved reserves, discounted at a 10 percent interest rate based on current economic and operating conditions) plus the lower of cost or fair market value of unproved properties. No valuation provision was required as of December 31, 1996, based on reserve estimates prepared by the independent reserve engineering firm, Miller and Lents, Ltd. This was the first year for which independent reserve engineers were engaged to evaluate reserves in accordance with estimation principles used outside the Former Soviet Union.

Sales of proved and unproved properties are accounted for as adjustments of capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and gas, in which case the gain or loss is recognized in income. Abandonments of properties are accounted for as adjustments to capitalized costs with no loss recognized.

Property, Plant and Equipment

As discussed above, Russian financial information is maintained in historic ruble terms. In years prior to 1992, exchange rates were fixed by the government and did not necessarily correspond to the real market value of the ruble. In addition, certain purchases were made through central purchasing authorities and values transferred to receiving organizations were determined by the government. During 1992, fixed assets were re-valued in accordance with Government Decree Number 595 dated August 14, 1992. Similar re-evaluations took place as of January 1, 1994, January 1, 1995 and January 1, 1996. Indexes used for these re-evaluations did not necessarily reflect the changes in the ruble's value, nor did they result in the value of the underlying fixed assets to which they were applied being re-valued to a current market value.

As a result, it was not possible to determine from the statutory accounting records an appropriate carrying value of property, plant and equipment for US GAAP reporting purposes. Accordingly, an independent appraisal company, American Appraisal (AAR) Inc., was engaged to perform an historic cost valuation of property, plant and equipment, together with related accumulated depreciation as of December 31, 1996 and December 31, 1995.

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

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

The results of this work have been used to determine the carrying values of property, plant and equipment for US GAAP purposes in the accompanying balance sheets as of December 31, 1996 and 1995.

The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense. Renewals and betterments of assets are capitalized. Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are included in the determination of net income.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization of oil and gas properties, including the estimated future costs to develop proved reserves, is provided on the unit-of-production method based on the ratio of current year production to total estimated future production from proved reserves.

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

Asset Group	Average Life
Buildings and land improvements	15-45 years
Machinery and Equipment (including refinery assets)	20-30 years
Vehicles and other	3-10 years

Capitalized Interest

Under US GAAP, interest may be capitalized on expenditures made in connection with capital projects that are not subject to current amortization. Interest is only capitalized for the period that activities are in progress to bring these projects to their intended use. No material interest costs were capitalized during the period.

Minority Interest in Subsidiary Companies

Minority interest in the consolidated balance sheets reflects minority owners' 62 percent share of shareholders' capital in subsidiaries. The minority interest is calculated based on the restated US Dollar shareholders' equity of each subsidiary. The actual ruble denominated balance distributable to minority interests may differ from the restated value.

Income Taxes

The Company is not subject to taxation on a consolidated basis. Current income taxes are provided on the accounting profit as determined under Russian accounting principles at a rate of 35 percent, for the periods ended December 31, 1996 and 1995, after adjustments for certain items which are not deductible for taxation purposes, and after consideration of capital investment tax credits. Under Russian accounting, no deferred taxes are accrued as the Russian books are the basis of the tax computation.

The accompanying consolidated financial statements reflect deferred income taxes of the Company and its subsidiaries in accordance with SFAS 109 "Accounting for Income Taxes", which requires that deferred tax assets and liabilities be recorded for the expected future tax consequences of existing differences between financial reporting and tax reporting bases of assets and liabilities, and loss or tax credit carryforwards.

Accounting for Contingencies

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

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

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

Revenue

Noyabrsk follows the policy of recognizing sales at the point its produced oil enters the transportation network.

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

Pensions

The Company and its subsidiaries do not operate any pension schemes.

Cash flow statement

A significant proportion, approximately $1.4 billion, of the Company's operations is settled through non-cash transactions. Such transactions are used to acquire assets and discharge liabilities, including tax.

Non-cash transactions have been recorded in the financial statements at the market value of the goods provided.

4. Cash and equivalents

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

	1996	1995 (unaudited)
Cash in bank - rubles	2,920	9,692
Cash in bank - hard currency	2,053	44,048
Other cash equivalents	13,823	20,388
Total cash and equivalents	18,796	74,128

Group companies have ruble and hard currency accounts in related banks, Neftechimbank and Noyabrskneftecombank. As of December 31, 1996, the Group companies' share in the capital of Neftechimbank and Noyabrskneftecombank were 10% and 97%, respectively. The balances in these accounts as of December 31, 1996 amounted to $1.8 million and $51 thousand, respectively.

5. Short-term Investments

Short-term investments include time deposits and loans given for periods of less than one year. The most significant of these investments at both December 31, 1996 and 1995 were time deposits of a total of $ 82 million with a major Russian bank. These deposits carry an agreed interest rate ranging from zero to 2 percent and the related interest income has been accrued and included in interest received and other income. Subsequent to year end, these time deposits were repaid.

6. Accounts Receivable

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

	1996	1995 (unaudited)
Trade receivables	410,411	155,074
Advances paid to suppliers	33,996	70,100
Value Added Tax receivable	66,447	48,645
Other	64,817	50,989
Less allowance for doubtful accounts	(72,268)	(41,556)
Total	503,403	283,252

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

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

Management has provided a general allowance on amounts due from commercial and industrial customers principally based on the overall delinquency in customer payments.

The Group's trade receivables are denominated primarily in rubles and are short-term in nature. However, in US dollar terms, due to significant delays in collection the Company is subject to the economic risk of currency movements between the time of billing and the receipt of payment. Since July 1995, the value of the ruble against the U.S. dollar has been maintained within a pre-set range (the "Ruble Corridor") by the Central Bank of the Russian Federation. In December 1996, the Central Bank announced that the Ruble Corridor would shift from 5,500 to 6,100 rubles to the U.S. dollar at January 1, 1997 and to 5,750 to 6,350 rubles to the dollar at December 31, 1997.

7. Inventories

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

	1996	1995 (unaudited)
Crude oil	21,304	16,046
Petroleum products	107,444	134,904
Materials and supplies	239,562	217,421
Other	28,644	31,712
Less reserve for materials and supplies	(54,519)	(28,308)
Total	342,435	371,775

8. Investments

The Group owns equity interests in various Russian entities. These investments have been accounted for at cost, less any provisions for permanent diminution in value, regardless of ownership interest. US GAAP requires that investments in entities not controlled by the holding company but in which the holding company's ownership percentage is greater than 20 percent be accounted for using the equity method and that investments in entities controlled by the holding company be consolidated. The impact of this departure from US GAAP is not significant to the overall financial presentation.

The significant equity and other long term investments in Russian companies are summarized below as of December 31, 1996 and 1995 (in USD thousands):

Name	Nature of Business	Ownership Percentage at December 31, 1996	1996	1995 (unaudited)
Vneshtorgbank	Bank	-	4,974	4,917
Tokobank	Bank	2%	5,004	5,004
Noyabrskneftecombank	Bank	66%	2,261	2,261
Neftechimbank	Bank	10%	10,000	10,000
Mosnefteproduct	Trade company	15%	9,718	-
Other			1,677	1,928
Total			33,634	24,110

On April 1, 1997, the Company's investment in Tokobank was sold to a related party for USD 5 million.

On May 27, 1997, the Company purchased a 15 % interest in The East Siberian Oil Company for total consideration of approximately USD 3 million.

9. Oil and Gas Properties

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

	1996	1995 (unaudited)
Oil and gas properties at carrying value	8,156,481	7,693,370
Depreciation, depletion and amortization	(3,141,438)	(2,836,923)
	5,015,043	4,856,447

10. Property, Plant and Equipment

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

	1996	1995 (unaudited)
Buildings	1,324,702	1,207,649
Machinery and Equipment	1,509,488	1,446,451
Vehicles and other Equipment	84,416	82,353
	2,918,606	2,736,453
Less: Accumulated Depreciation	(1,584,867)	(1,465,913)
Property, Plant and Equipment, net	1,333,739	1,270,540

11. Construction in Progress

Construction work in progress includes various construction projects and machinery and equipment delivered but not yet installed. As of December 31, 1996, detail of construction in progress is as follows (in USD thousands):

	Construction Work in Progress	Machinery/ Equipment to be Installed	Total
Buildings	74,317	-	74,317
Plant and machinery	67,255	88,223	155,478
Vehicles and other equipment	34,684	-	34,684
Total	176,256	88,223	264,479

12. Short-term Loans

Loans are comprised of unsecured loans from Russian banks, denominated in rubles, with fixed terms of repayment. As of December 31, the Group had outstanding loans as follows (in USD thousands):

	1996	1995 (unaudited)
Banks	101,566	125,396
Banks - related party	18,150	7,335
Other	270	862
Total	119,986	133,593

In general, loans are used for the provision of working capital needs. The majority of loans outstanding at December 31, 1996 are denominated in rubles and incur relatively high interest rates (a weighted average interest rate at year end of 57 percent). For the year ended December 31, 1996, the weighted average short-term debt outstanding was $82 million, with a weighted average interest rate for the year of 88 percent. During 1997 these ruble debts have been re-negotiated, with interest rates now significantly lower than those shown above.

Subsequent to year end, the Company has obtained a short term syndicated loan from "Credit Lyonnais Russie" for USD 100 million. This loan is secured by crude oil production of Noyabrsk, bears interest at an annual rate of US LIBOR plus 3% and is repayable from export proceeds on a month-to-month basis. Sibneft has also taken out an additional loan of USD 72 millions with "Credit Lyonnais Russie" under the same terms. In addition, the Company has obtained a revolving loan of USD 68.5 from "Raiffeisen Zentralbank" which bears floating interest at rates from reference rate plus 0.75 % to reference rate plus 5.5% and is secured by assignment of rights to export proceeds from which the repayment is made.

13. Accounts Payable and Accrued Liabilities

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

	1996	1995 (unaudited)
Trade accounts payable	251,443	132,575
Other accounts payable	111,818	155,920
Accrued liabilities	99,443	138,672
Total	462,704	427,167

Included in trade accounts payable is an amount of $57,152 relating to taxes payable that the tax authorities have requested the Company to pay, in refined product, to a third party.

14. Income and Other Taxes

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

	1996	1995 (unaudited)
Amounts falling due within one year		
VAT	180,236	40,328
Royalties	92,752	38,922
Excise tax	117,046	56,810
Mineral Replenishment tax	43,681	37,072
Property tax	24,568	18,212
Profits tax	34,612	6,242
Other taxes payable	61,516	26,762
Non-budget taxes payable	84,283	76,302
Fines and penalties (see below)	87,000	-
	725,694	300,650
Amounts falling due after one year		
Fines and penalties (see below)	14,000	-

Noyabrsk has accumulated tax arrears dating back to 1993, and has received formal tax deferral approval granted under the terms of Presidential Decree Number 65 dated January 19, 1996 whereby accumulated tax arrears, fines and penalties may be repaid over a number of years. While Noyabrsk has made efforts to meet the terms of the deferral the increased taxes in 1996 has meant that not all conditions have been met. The principal deferred sum due and recorded by Noyabrsk under this deferral scheme at December 31, 1996 was USD 259 million.

The tax authorities have informed Noyabrsk on a number of occasions that they will impose fines and penalties arising from the non-compliance with the deferral scheme. If the deferral scheme was withdrawn, the above deferred sum together with a charge for penalties arising as a result of the default would become due and payable immediately. However, the Company is currently negotiating an agreement with the Federal tax authorities whereby, in return for settling the principal deferred sum as at December 31, 1996 by January 1, 1998, payment of the unrecorded penalties will be postponed for 10 years. The agreement is subject to the final approval of the Russian Prime Minister, which management is confident will be obtained in the near future. Accordingly, an accrual of USD 14 million, being the net present value of the penalties for being in default as at December 31, 1996 discounted at the Company's current effective borrowing rate, has been made by Sibneft in the 1996 financial statements and included within fines and penalties due in more than one year. The penalties continue to accrue through 1997 to the date of signing the agreement and are also subject to deferral.

The Group is also engaged in ongoing discussions with both the local and Federal tax authorities on a range of other issues arising from the audit of the Group's records by the tax inspectorate. Consequently, Sibneft has recorded an additional provision of USD 87 million that is included within fines and penalties due within one year. This provision represents management's best estimate of the outcome of their discussions with the tax authorities. If the tax authorities do not accept the Group's representations in these discussions a significantly higher liability may be imposed.

Noyabrsk also has an agreement with the local and district tax authorities to make the payment of certain taxes through the delivery of refined product. Sibneft delivers the refined product and the value is agreed each quarter with the tax authorities and charged to Noyabrsk.

15. Capitalization

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

The following comprises the share structure of the Company as of December 31, 1996:

	Number of Shares (millions)	Ownership Percentage
Russian Government	2,303	51.0%
SINS (Siberian Investors)	858	19.0%
Refine Oil	677	15.0%
RUNICOM	552	12.2%
Other Investors	126	2.8%
Total	4,516	100.0%

No companies or individuals, other than those listed above, hold more than five percent of the Company's shares as of December 31, 1996.

On May 12, 1997 Finansovaya Neftyanaya Korporatsiya (FNK) purchased the 51% holding of the Russian Government at an investment tender.

16. Dividends

In accordance with Russian statutory accounting regulations, earnings available for dividends are limited to profits, denominated in rubles, after certain deductions.

The Company to date has not declared any dividends.

17. Income Taxes

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

	1996	1995 (unaudited)
Current income taxes	71,899	193,142
Deferred income taxes	-	-
Total provision for income taxes	71,899	193,142

The provision for income taxes represents the total income tax expense for the Company and each of its subsidiaries. In all cases deferred income taxes were calculated for each as an asset. Due to the Russian environment described in Note 2 and the corresponding uncertainty of realization, all of these assets have been fully reserved.

Although the Company does not pay tax on a consolidated basis, a reconciliation of expected income tax expense to the actual tax expense is as follows (in USD thousands):

	1996	1995 (unaudited)
Income (loss) before income taxes	69,553	(13,555)
Statutory income tax rate	35%	35%
"Expected" income tax expense (credit)	24,344	(4,744)
Add (deduct) tax effect of:		
Minority interest effect on income	(12,291)	7,387
Dividends on preferred stock of subsidiaries	1,324	9,272
Temporary accounting differences	50,989	95,644
Permanent accounting differences	7,533	85,583
Income taxes	71,899	193,142
Effective tax rate	103%	1,425%

18. Commitments and Contingencies

Construction Program

The Group is engaged in continuous construction and exploration programs, currently estimated to total $936 million over the next four years, as follows: $204 million in 1997, $196 million in 1998, $253 million in 1999 and $283 million in 2000 (using an exchange rate equal to 6,000 rubles to 1 US dollar for all years). The construction programs are subject to periodic reviews and actual construction may vary from the above estimates. At December 31, 1996, no significant purchase commitments were outstanding in connection with the construction programs.

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

The Group has purchase commitments for property, plant and equipment from various manufacturers. These commitments are $54 million, $21 million, and $5 million for the years 1997, 1998 and 1999, respectively. There are no commitments after 1999.

Environmental Matters

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

Insurance Matters

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

Social Assets

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

With respect to these social assets, the Group has incurred $120 million and $141 million (unaudited) in expenses for the years ended December 31, 1996 and 1995, respectively.

19. Related Party Transactions

For the period from inception (September 30, 1995) to December 31, 1996, approximately 15% of sales were made to a shareholder who principally exports refined product. As of December 31, 1996, the Group had outstanding receivables from the shareholder totaling $45 million, representing amounts outstanding through normal trading practices.

20. Segment Information

The Group operates in one industry, the oil and gas industry, and in one geographic segment, Russia.
28% of sales are for export.

21. Subsequent Events

Share Issuance

In 1997, Noyabrsk shareholders approved the issue of an additional 44,334,975 ordinary shares of 200 rubles each, to be distributed proportionately to existing shareholders. None of these additional shares have been issued to date. However, the Company is currently negotiating an amendment to this agreement, whereby these shares would be issued under a closed auction.

Debt Issuance

In August 1997, the Company completed a Eurobond issue. The bond matures after three years and bears interest at 4 % above the London Interbank Market rate for US Dollar deposits. Proceeds of the issue totaled USD 150 million.