



**ROSNEFT**

OPEN JOINT STOCK COMPANY

OIL COMPANY

## **OJSC Rosneft Oil Company**

### **Interim Condensed Consolidated Financial Statements**

*Three and six months ended June 30, 2007 and 2006*

# OJSC Rosneft Oil Company

## Interim Condensed Consolidated Financial Statements

Three and six months ended June 30, 2007 and 2006

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# OJSC Rosneft Oil Company

## Consolidated Balance Sheets

(in millions of US dollars, except share amounts)

	Notes	June 30, 2007 (unaudited)	December 31, 2006
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	5	\$ 2,443	\$ 505
Restricted cash		94	29
Short-term investments		621	460
Accounts receivable, net of allowance of US\$ 169 and US\$ 65, respectively	6	6,297	4,839
Inventories		1,721	905
Current deferred tax assets		145	1,135
Prepayments and other current assets		1,028	1,589
Assets held-for-sale	7	4,579	–
<b>Total current assets</b>		<b>16,928</b>	<b>9,462</b>
<b>Non-current assets:</b>			
Long-term investments		946	568
Long-term bank loans granted, net of allowance of US\$ 8 and US\$ 6, respectively		288	110
Property, plant and equipment	8	46,526	35,945
Goodwill	3	4,753	161
Non current deferred tax assets		110	110
Prepayments and other non-current assets		1,054	434
<b>Total non-current assets:</b>		<b>53,677</b>	<b>37,328</b>
<b>Total assets</b>		<b>\$ 70,605</b>	<b>\$ 46,790</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued liabilities	9	\$ 6,792	\$ 1,998
Short-term loans and current portion of long-term debt	10	17,086	6,427
Income and other tax liabilities		3,960	2,472
Deferred tax liabilities		48	17
Other current liabilities		45	20
Liabilities related to assets held-for-sale	7	2,522	–
<b>Total current liabilities</b>		<b>30,453</b>	<b>10,934</b>
Asset retirement obligations		909	748
Long-term debt	10	10,172	7,402
Deferred tax liabilities		6,819	5,446
Other non-current liabilities		196	160
<b>Total non-current liabilities</b>		<b>18,096</b>	<b>13,756</b>
<b>Minority interest</b>		<b>244</b>	<b>225</b>
<b>Shareholders' equity:</b>			
Common stock par value 0.01 RUB (shares outstanding: 9,598 million and 10,598 million as of June 30, 2007 and December 31, 2006, respectively)	11	20	20
Treasury shares (at acquisition cost: 1,000 million and 0 shares as of June 30, 2007 and December 31, 2006, respectively)		(7,537)	–
Additional paid-in capital		11,352	11,352
Accumulated other comprehensive income	2	7	–
Retained earnings		17,970	10,503
<b>Total shareholders' equity</b>		<b>21,812</b>	<b>21,875</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 70,605</b>	<b>\$ 46,790</b>

*The accompanying notes are an integral part of the interim condensed consolidated financial statements.*

OJSC Rosneft Oil Company

Consolidated Statements of Income and Comprehensive Income

(in millions of US dollars, except earnings per share data)

	Notes	Three months ended June 30, 2007 (unaudited)	Three months ended June 30, 2006 as restated (unaudited)	Six months ended June 30, 2007 (unaudited)	Six months ended June 30, 2006 as restated (unaudited)
<b>Revenues</b>					
Oil and gas sales	16	\$ 7,208	\$ 6,114	\$ 12,847	\$ 11,153
Sales of petroleum products and processing fees	16	3,377	2,407	5,872	4,626
Support services and other revenues		200	81	286	150
<b>Total</b>		<b>10,785</b>	<b>8,602</b>	<b>19,005</b>	<b>15,929</b>
<b>Costs and expenses</b>					
Production and operating expenses		734	493	1,276	936
Cost of purchased oil, gas, petroleum products and refining costs		398	345	878	633
General and administrative expenses		273	178	459	320
Pipeline tariffs and transportation costs		964	725	1,903	1,460
Exploration expenses		47	53	82	78
Depreciation, depletion and amortization		850	408	1,523	792
Accretion expense		12	8	23	16
Taxes other than income tax		2,319	1,896	4,235	3,506
Export customs duty	12	2,514	2,629	5,192	4,793
<b>Total</b>		<b>8,111</b>	<b>6,735</b>	<b>15,571</b>	<b>12,534</b>
<b>Operating income</b>		<b>2,674</b>	<b>1,867</b>	<b>3,434</b>	<b>3,395</b>
<b>Other income/(expenses)</b>					
Interest income		41	22	78	60
Interest expense		(443)	(175)	(644)	(381)
Loss on disposal of property, plant and equipment		(22)	(13)	(34)	(17)
Gain/(loss) on disposal of investments		24	(5)	28	(5)
Equity share in affiliates' (losses)/profits		9	11	(2)	19
Dividends and income from joint ventures		5	–	6	1
Gain from Yukos Oil Company bankruptcy proceedings	6	7,920	–	7,920	–
Other income/(expenses), net	4	(67)	3	(118)	(23)
Foreign exchange gain/(loss)		16	(118)	(31)	(277)
<b>Total other income/(expenses)</b>		<b>7,483</b>	<b>(275)</b>	<b>7,203</b>	<b>(623)</b>
<b>Income before income tax and minority interest</b>		<b>10,157</b>	<b>1,592</b>	<b>10,637</b>	<b>2,772</b>
Income tax expense	13	(2,500)	(484)	(2,621)	(819)
<b>Income before minority interest</b>		<b>7,657</b>	<b>1,108</b>	<b>8,016</b>	<b>1,953</b>
Minority interest in subsidiaries' earnings, net of tax		(2)	(31)	(3)	(74)
<b>Net income</b>		<b>\$ 7,655</b>	<b>\$ 1,077</b>	<b>\$ 8,013</b>	<b>\$ 1,879</b>
Other comprehensive income	2	7	–	7	–
<b>Comprehensive income</b>		<b>\$ 7,662</b>	<b>\$ 1,077</b>	<b>\$ 8,020</b>	<b>\$ 1,879</b>
Net earnings per share (in US\$) – basic and diluted		\$ 0.78	\$ 0.12	\$ 0.79	\$ 0.21
Weighted average number of shares outstanding (millions)		9,785	9,092	10,189	9,092

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

OJSC Rosneft Oil Company  
Consolidated Statements of Cash Flows  
*(in millions of US dollars)*

	Notes	Six months ended June 30, 2007 (unaudited)	Six months ended June 30, 2006 as restated (unaudited)
<b>Operating activities</b>			
Net income		\$ 8,013	\$ 1,879
Adjustments to reconcile net income to net cash provided by operating activities:			
Effect of foreign exchange		71	230
Depreciation, depletion and amortization		1,523	792
Dry well expenses		16	4
Loss on disposal of property, plant and equipment		34	17
Deferred income tax		1,033	(135)
Accretion expense		23	16
Equity share in affiliates' loss/(profits)		2	(19)
Gain on disposal of investments		(28)	–
Acquisition of trading securities		(253)	(7)
Proceeds from sale of trading securities		238	7
Increase in allowance for doubtful accounts and bank loans granted		19	6
Minority interests in subsidiaries' earnings		3	74
Gain from Yukos Oil Company bankruptcy proceedings	6	(7,920)	–
Cash received from Yukos Oil Company bankruptcy receiver	6	9,316	–
Changes in operating assets and liabilities net of acquisitions:			
Increase in accounts receivable		(701)	(360)
Increase in inventories		(207)	(75)
Increase in restricted cash		(65)	(2)
Decrease in prepayments and other current assets		207	–
Increase in other non-current assets		(241)	(112)
Increase in long-term bank loans granted		(180)	(14)
Increase in interest payable		71	98
Increase in accounts payable and accrued liabilities		533	192
Increase in income and other tax liabilities		1,085	235
Decrease in other current and non-current liabilities		–	(3)
<b>Net cash provided by operating activities</b>		<b>\$ 12,592</b>	<b>\$ 2,823</b>

*The accompanying notes are an integral part of the interim condensed consolidated financial statements.*

OJSC Rosneft Oil Company  
Consolidated Statements of Cash Flows (continued)

*(in millions of US dollars)*

	Notes	Six months ended June 30, 2007 (unaudited)	Six months ended June 30, 2006 as restated (unaudited)
<b>Investment activities</b>			
Capital expenditures		\$ (2,288)	\$ (1,403)
Acquisition of licenses		(5)	(464)
Proceeds from disposals of property, plant and equipment		16	12
Acquisition of short-term investments		(116)	(452)
Proceeds from sale of short-term investments		30	46
Acquisition of entities and additional shares in subsidiaries, net of cash acquired	3	(16,254)	(145)
Proceeds from sale of long-term investments		12	15
Prepayment for disposal of equity interests	9	3,400	–
Settlement/(acquisition) of debt receivable	10	483	(463)
Acquisition of long-term investments		(26)	(51)
<b>Net cash used in investing activities</b>		<b>(14,748)</b>	<b>(2,905)</b>
<b>Financing activities</b>			
Proceeds from short-term debt		22,932	99
Repayment of short-term debt		(12,067)	(604)
Proceeds from long-term debt		2,212	2,185
Repayment of long-term debt		(1,456)	(1,623)
Cash paid for acquisition of treasury shares	11	(7,537)	–
Dividends paid to minority shareholders in subsidiaries		(5)	–
<b>Net cash provided by financing activities</b>		<b>4,079</b>	<b>57</b>
Increase/(decrease) in cash and cash equivalents		1,923	(25)
Cash and cash equivalents at beginning of period		505	1,173
Effect of foreign exchange on cash and cash equivalents		15	18
<b>Cash and cash equivalents at end of period</b>		<b>\$ 2,443</b>	<b>\$ 1,166</b>
<b>Supplementary disclosures of cash flow information</b>			
Cash paid for interest (net of amount capitalized)		\$ 482	\$ 314
Cash paid for income taxes		\$ 1,109	\$ 933

*The accompanying notes are an integral part of the interim condensed consolidated financial statements.*

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements

Three and six months ended June 30, 2007 and 2006

*(all amounts in tables are in million of US dollars, except as noted otherwise)*

### 1. Nature of Operations

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

### 2. Significant Accounting Policies

#### Form and Content of the Interim Condensed 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 interim condensed consolidated financial statements were derived from the Company's Russian statutory books and records with adjustments made to present them in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

The interim condensed consolidated financial statements included herein are unaudited and have been prepared in accordance with US GAAP for interim financial reporting of public companies (primarily Accounting Principle Board Opinion 28 (APB 28) "*Interim Financial Reporting*") and do not include all disclosures required by US GAAP. The Company omitted disclosures which would substantially duplicate the information contained in its 2006 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Company has provided disclosures where significant events have occurred subsequent to the issuance of its 2006 audited consolidated financial statements. Management believes that the disclosures are adequate to make the information presented not misleading if these interim condensed consolidated financial statements are read in conjunction with the Company's 2006 audited consolidated financial statements and the notes related thereto. In the opinion of management, the financial statements reflect all adjustments of a normal and recurring nature necessary to present fairly the Company's consolidated financial position, results of operations and cash flows for the interim periods.

The results of operations for six months ended June 30, 2007 may not be indicative of the results of operations for the full year. These interim condensed consolidated financial statements contain information updated through October 16, 2007.

The accompanying interim condensed 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 statutory 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) recognition of certain expenses; (2) valuation and depreciation of property, plant and equipment; (3) foreign currency translation; (4) deferred income taxes; (5) valuation allowances for unrecoverable assets; (6) accounting for the time value of money; (7) accounting for investments in oil and gas property and conveyances; (8) consolidation principles; (9) recognition and disclosure of guarantees, contingencies, commitments and certain assets and liabilities; (10) accounting for asset retirement obligations; (11) business combinations and goodwill/negative goodwill; (12) accounting for derivative instruments.

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### Form and Content of the Interim Condensed Consolidated Financial Statements (continued)

As previously reported in the financial statements for the three and six months ended June 30, 2006, revenues associated with the sales of crude oil purchased from third parties and flowed through the Caspian Pipeline Consortium system were presented on a gross basis under the provisions of EITF 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*. During 2006, a review was undertaken into the presentation of certain of these transactions where the ultimate customer was an affiliate of the crude oil supplier. It was concluded that such transactions should be reported on a net basis. The effect of this restatement on the first half of 2006 amounted to a reduction in Oil and gas sales in the consolidated statement of income and comprehensive income by US\$ 404 million and a reduction of Cost of purchased oil, gas, petroleum products and refining costs in the consolidated statement of income and comprehensive income by US\$ 404 million with no effect on net income.

Certain items in consolidated statements of income and comprehensive income and cash flows for the six months ended June 30, 2006 were reclassified to conform to the current period presentation.

The following is a summary of reclassifications made in the consolidated statement of income and comprehensive income for the six months and for the three months ended June 30, 2006 as a result of the restatement and reclassifications discussed above:

	<b>Six months ended June 30, 2006 as previously reported (unaudited)</b>	<b>Adjustments and reclassifications</b>	<b>Six months ended June 30, 2006 as restated (unaudited)</b>
Oil and gas sales	\$ 11,557	\$ (404)	\$ 11,153
Petroleum products and processing fees	4,626		4,626
Support services and other revenues	173	(23)	150
Total sales	16,356	(427)	15,929
Production and operating expenses	940	(4)	936
Cost of purchased oil, gas, petroleum products and refining costs	1,102	(469)	633
General and administrative expenses	348	(28)	320
Pipeline tariffs and transportation costs	1,457	3	1,460
Exploration expenses	98	(20)	78
Depreciation, depletion and amortization	792		792
Accretion expense	16		16
Taxes other than income tax	3,440	66	3,506
Export customs duty	4,793		4,793
Total	12,986	(452)	12,534
Operating income	3,370	25	3,395
Total other expenses	(598)	(25)	(623)
Income before income tax	\$ 2,772		\$ 2,772



# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### Form and Content of the Interim Condensed Consolidated Financial Statements (continued)

	Three months ended June 30, 2006 as previously reported (unaudited)	Adjustments and reclassifications	Three months ended June 30, 2006 as restated (unaudited)
Oil and gas sales	\$ 6,344	\$ (230)	\$ 6,114
Petroleum products and processing fees	2,407		2,407
Support services and other revenues	89	(8)	81
Total sales	8,840	(238)	8,602
Production and operating expenses	519	(26)	493
Cost of purchased oil, gas, petroleum products and refining costs	557	(212)	345
General and administrative expenses	181	(3)	178
Pipeline tariffs and transportation costs	764	(39)	725
Exploration expenses	63	(10)	53
Depreciation, depletion and amortization	408		408
Accretion expense	8		8
Taxes other than income tax	1,866	30	1,896
Export customs duty	2,629		2,629
Total	6,995	(260)	6,735
Operating income	1,845	22	1,867
Total other income expenses	(253)	(22)	(275)
Income before income tax	\$ 1,592		\$ 1,592

#### 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 amounts of revenues and expenses recognized 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 useful lives of long-term assets and investments; impairment of goodwill; allowances for doubtful accounts receivable; asset retirement obligations; legal and tax contingencies; environmental remediation obligations; recognition and disclosure of guarantees and other commitments; fair value measurements; ability to renew operating leases and to enter into new lease agreements; classification of certain debt amounts. Some of the most significant estimates were made in connection with the acquisition of Yukos Oil Company assets (see Note 3). 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.

#### Foreign Currency Translation

The management of the Company has determined the US Dollar as the functional and reporting currency for the purpose of financial reporting under US GAAP. Monetary assets and liabilities have been translated into US dollars using the official exchange rate as of the balance sheet date. Non-monetary assets and liabilities have been translated at historical rates. Revenues, expenses and cash flows are translated into US dollars at exchange rates that are close to the actual rates of exchange prevailing on transaction dates where practicable.

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### Foreign Currency Translation (continued)

Gains and losses resulting from the re-measurement into US dollars are included in the "Foreign exchange loss" in the consolidated statement of income and comprehensive income.

As of June 30, 2007, December 31, 2006, and June 30, 2006, the Central Bank of the Russian Federation ("CBR") official rates of exchange were 25.82 rubles, 26.33 rubles and 27.08 rubles per US dollar, respectively. Average rates of exchange in the first six months of 2007 and 2006 were calculated as 26.08 rubles and 27.68 rubles per US dollar, respectively. As of October 16 2007, the official rate of exchange was 24.92 rubles ('RUB') per US dollar.

The translation of local currency denominated assets and liabilities into US dollars for the purposes of these financial statements does not indicate that the Company could realize or settle, in US dollars, the reported values of these assets and liabilities. Likewise, it does not indicate that the Company could return or distribute the reported US dollar value of capital to its shareholders.

#### Principles of Consolidation

The consolidated financial statements include the accounts of majority-owned, controlled subsidiaries and variable interest entities where the Company is a primary beneficiary. All intercompany transactions and balances have been eliminated. The equity method is used to account for investments in affiliates in which the Company has the ability to exert significant influence over the affiliates' operating and financial policies. The investments in entities where the Company holds the majority of shares, but the minority shareholders have significant influence, are also accounted for using the equity method. The Company's share in net profit or loss of equity investees also includes any other-than-temporary declines in fair value recognized during the period. Investments in other companies are accounted for at cost and adjusted for estimated impairment.

#### Minority Interest

Minority interests in the net assets and net results of consolidated subsidiaries are shown under "Minority interest" in the accompanying consolidated balance sheets and statements of income and comprehensive income. For majority-owned subsidiaries that incur losses, the Company recognizes 100% of the losses, after first reducing the related minority interests' balances to zero, unless minority shareholders committed to fund the losses. Further, when a majority-owned subsidiary becomes profitable, the Company recognizes 100% of profits until such time as the excess losses previously recorded have been recovered. Thereafter, the Company recognizes profits in accordance with the underlying ownership percentage. The actual ruble-denominated balances attributable to minority interests may differ from these amounts presented in these consolidated financial statements.

#### Business Combinations

The Company accounts for its business acquisitions under the purchase method of accounting. The total cost of acquisitions is allocated to the underlying assets, including intangible assets, and liabilities based on their respective estimated fair values. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, license and other asset lives and market multiples, among other items.

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### Goodwill and Other Intangible Assets

Goodwill represents the excess of the acquisition cost over the fair value of net assets acquired. The excess of the fair value of the acquired share of net assets over their acquisition cost represents negative goodwill and is allocated among the non-current assets acquired, excluding investments and deferred tax assets, which may result in their value being reduced to zero.

For investees accounted for under the equity method, the excess of the cost to acquire a share in those entities over the fair value of the acquired share of net assets as of the acquisition date is treated as embedded goodwill and is considered in computing the Company's equity share in income/loss of equity investees.

In accordance with requirements of SFAS 142, *Goodwill and Other Intangible Assets*, goodwill and intangible assets with indefinite useful lives are not amortized. Instead, they are tested at least annually for impairment.

Intangible assets that have a finite useful life are amortized using the straight-line method over the shorter of their useful life or the term established by legislation.

#### Income Taxes

The Company follows the provisions of Accounting Principles Board Opinion ("APB") 28, *Interim Financial Reporting*, to arrive at the effective tax rate. The effective tax rate is the best estimate of the expected annual tax rate to be applied to the taxable income for the current reporting period. The rate is based on the currently enacted tax rate (24%) and includes estimates of the annual tax effect of permanent differences and the realization of certain deferred tax assets.

#### Derivative Instruments

All derivative instruments are recorded on the balance sheet at fair value in either prepayments and other current assets, other non-current assets, other accruals, or other liabilities and deferred credits. Recognition and classification of the gain or loss that results from recording and adjusting a derivative to fair value depends on the purpose for issuing or holding the derivative. Gains and losses from derivatives that are not accounted for as hedges under Statement of Financial Accounting Standard ("SFAS") 133, *Accounting for Derivative Instruments and Hedging Activities*, are recognized immediately in earnings.

#### Comprehensive Income

The Company applies SFAS 130, *Reporting Comprehensive Income*, which establishes standards for the calculation and reporting of the Company's comprehensive income (net income plus all other changes in net assets from non-owner sources) and its components in consolidated financial statements.

As of June 30, 2007, the Company recorded other accumulated comprehensive income in the amount of US\$ 7 million (net of tax) which represents an unrealized gain resulting from the revaluation of available-for-sale investments.

As of June 30, 2006, there were no significant other comprehensive income items and, therefore, comprehensive income for the first six months of 2006 equals net income.

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### Changes in Accounting Policies

Since January 1, 2007 the Company has applied Interpretation ("FIN") 48, *Accounting for Uncertainty in Income Taxes* while preparing the US GAAP financial statements. Income tax additionally accrued under the provisions of FIN 48 (if any) together with corresponding interest and penalties is recognized in the consolidated statements of income and comprehensive income in the Income tax expense line. Accrued liabilities for interest and penalties for income tax totaled US\$ 211 million as of January 1, 2007 and US\$ 272 million as of June 30, 2007.

As of January 1, 2007 the Company analyzed its tax positions for uncertainties affecting the recognition and measurement of tax positions. The adoption of FIN 48 had an insignificant impact on the financial statements of the Company. The Company had unrecognized tax benefits in the amount of RUB 890.1 million as of both January 1, 2007 and June 30, 2007 (US\$ 33.8 million as of January 1, 2007 and US\$ 34.4 million as of June 30, 2007). The total amount of unrecognized tax benefits that, if recognized, would affect the effective income tax rate is RUB 890.1 million as of both January 1, 2007 and June 30, 2007 (US\$ 33.8 million as of January 1, 2007 and US\$ 34.4 million as of June 30, 2007).

During the second quarter of 2007 no additional uncertainties relating to income tax were identified which would influence the recognition and measurement of the Company's tax positions.

As discussed in the Note 15, the tax authorities are currently examining the Company's income tax returns for the years 2004-2006 (for the period up to September 30, 2006). There are no other tax years or periods that remain subject to examination.

#### Recent Accounting Standards

In May 2007, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") FIN 39-1, *Amendment of FASB Interpretation No. 39*, to amend paragraph 10 of FASB Interpretation ("FIN") 39, *Offsetting of Amounts Related to Certain Contracts*, to permit a reporting entity that is party to a master netting arrangement to offset the receivable or payable recognized upon payment or receipt of cash collateral against the fair value amounts recognized against derivative instruments that had been offset under the same master netting arrangement in accordance with paragraph 10. FSP FIN 39-1 also amends paragraph 3 of FIN 39 to replace the terms, "conditional contracts" and "exchange contracts," with the broader term, "derivative contracts," as defined in SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*. FSP FIN 39-1 applies to fiscal years beginning after November 15, 2007, with early application permitted. The Company expects that FSP FIN 39-1 will not have a material impact on the Company's financial statements.

In May 2007, the FASB issued FSP FIN 48-1, *Definition of Settlement* in FASB Interpretation No. 48, an amendment of FIN 48, *Accounting for Uncertainty in Income Taxes*, to clarify that a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits in accordance with paragraph 10(b) of that Interpretation if (a) the taxing authority has completed all of its required or expected examination procedures, (b) the enterprise does not intend to appeal or litigate any aspect of the tax position, and (c) it is considered remote that the taxing authority would reexamine the tax position. FSP FIN 48-1 is effective as of the same dates as FIN 48, with retrospective application required for entities that have not applied FIN 48 in a manner consistent with the provisions of the proposed FSP. The Company expects that FSP FIN 48-1 will not have a material impact on the Company's financial statements.

## OJSC Rosneft Oil Company

### Notes to Interim Condensed Consolidated Financial Statements (continued)

#### 3. Significant Acquisitions

From April through June 2007, Neft-Aktiv LLC, the Company's wholly owned subsidiary, won a number of auctions for the sale of certain assets of Yukos Oil Company following the bankruptcy proceedings of Yukos Oil Company.

On April 18, 2007, Neft-Aktiv LLC won an auction for the sale of interests in several service companies located in Western Siberia providing, in particular, oilfield services to RN-Yuganskneftegaz LLC, the Company's wholly owned subsidiary. The acquisition price amounted to RUB 1.03 billion (US\$ 40 million at the CBR official exchange rate as of the dates of acquisitions). The acquisition of these assets was executed for the purpose of further improvement of efficiency of processes of oil production at the Company's West-Siberian oil fields.

As a result of the preliminary allocation the acquisition price was fully allocated to the fair value of assets acquired and liabilities assumed.

On May 3, 2007, Neft-Aktiv LLC won an auction for the sale of interests in 37 exploration and production, refining and marketing companies in Western and Eastern Siberia. The acquisition price amounted to RUB 175.70 billion (US\$ 6.82 billion at the CBR official exchange rate as of the dates of acquisitions). In particular, the following assets were acquired:

Name	Nature of business	Equity interest acquired %
	Oil and gas development and production	
OJSC Tomskneft VNK		100.00
OJSC Angarsk Petrochemical Company	Petroleum refining	100.00
OJSC Achinsk Refinery VNK	Petroleum refining	100.00
OJSC Angarsk Polymer Plant	Petroleum refining	100.00
Strezhevskoy Refinery LLC	Petroleum refining	100.00
	Oil and gas development and production	
OJSC East-Siberian Oil and Gas Company		70.78
OJSC Tomskaya Raspredelitel'naya Company	Services	25.88
OJSC Tomskaya Energosbytovaya Company	Services	25.88
OJSC Tomskie Magistralnye Seti	Services	25.88
OJSC Tomskelektrosetremont	Services	25.88
OJSC Tomskenergoremont	Services	25.88
OJSC Tomskenergo	Services	25.88
CJSC Irkutsknefteprodukt	Marketing and distribution	100.00
OJSC Buryatnefteprodukt	Marketing and distribution	95.10
CJSC Khakasnefteprodukt VNK	Marketing and distribution	100.00
OJSC Tomsknefteprodukt VNK	Marketing and distribution	100.00

As a result of the preliminary allocation the acquisition price was allocated to the fair value of assets acquired and liabilities assumed in the amount of US\$ 4.97 billion (see also Note 7).

On May 10, 2007, Neft-Aktiv LLC won an auction for the sale of interests in 28 exploration and production, refining and marketing companies in the Samara region of Russia. The acquisition price amounted to RUB 165.53 billion (US\$ 6.42 billion at the CBR official exchange rate as of the dates of acquisitions). In particular, the following assets were acquired:

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 3. Significant Acquisitions (continued)

Name	Nature of business	Equity interest acquired %
	Oil and gas development and production	
OJSC Samaraneftgaz		100.00
OJSC Kuybyshev Refinery	Petroleum refining	100.00
OJSC Novokuybyshev Refinery	Petroleum refining	100.00
OJSC Syzran Refinery	Petroleum refining	100.00
CJSC Neftegorsk Gas-Processing Plant	Gas processing	98.10
CJSC Otradny Gas-Processing Plant	Gas processing	98.10
OJSC Samaraneftprodukt	Marketing and distribution	100.00
Samara Terminal LLC	Marketing and distribution	100.00

As a result of the preliminary allocation the acquisition price was allocated to the fair values of assets acquired and liabilities assumed in the amount of US\$ 4.43 billion.

The acquisition of oil producing and refining companies of the Siberian and Samara regions was executed in accordance with the Company's strategy to increase oil reserves and production, and improve vertical integration through increasing the Company's own refining capacity and retail distribution network.

On May 16, 2007, Neft-Aktiv LLC won an auction for the sale of interests in several small service and IT companies. The acquisition price amounted to RUB 1.80 billion (US\$ 70 million at the CBR official exchange rate as of the dates of acquisitions).

As a result of the preliminary allocation the acquisition price was fully allocated to the fair value of assets acquired and liabilities assumed.

On June 15, 2007, Neft-Aktiv LLC acquired from Unitex interests in companies engaged in retail and wholesale of petroleum products and providing services related to storage of petroleum products in the European part of Russia. The Company acquired these assets to develop its own oil product distribution channels following the growth of oil products manufacturing as well as to expand its presence in the European Russia oil products distribution market. The acquisition price amounted to RUB 16.32 billion (US\$ 0.63 billion at the CBR official exchange rate as of the dates of acquisitions). Earlier Unitex acquired interests in these entities at the auction on May 10, 2007. In particular, the following assets were acquired:

Name	Nature of business	Equity interest acquired %
OJSC Belgorodnefteprodukt	Marketing and distribution	100.00
CJSC Bryansknefteprodukt	Marketing and distribution	100.00
OJSC Voronezhnefteprodukt	Marketing and distribution	100.00
CJSC Lipetsknefteprodukt	Marketing and distribution	100.00
CJSC Orelnefteprodukt	Marketing and distribution	100.00
CJSC Penzanefteprodukt	Marketing and distribution	100.00
CJSC Tambovnefteprodukt	Marketing and distribution	100.00
CJSC Ulyanovsknefteprodukt	Marketing and distribution	100.00
Ulyanovsk Terminal LLC	Marketing and distribution	100.00
CJSC FPK KEDR M	Marketing and distribution	100.00
CJSC NBA Service	Marketing and distribution	100.00
OJSC Germes Moskva	Marketing and distribution	82.80
CJSC Contract Oil	Marketing and distribution	100.00
CJSC Mytischki Fuel Company	Marketing and distribution	100.00

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 3. Significant Acquisition (continued)

As a result of the preliminary allocation the acquisition price was allocated to the fair value of assets acquired and liabilities assumed in the amount of US\$ 0.63 billion.

At the end of June 2007 Rosneft and Neft-Aktiv LLC acquired from Prana LLC (further 'Prana') assets that were previously owned by Yukos Oil Company, including the 100% interest in Dubininskoe LLC which owns office property, and the 100% interest in Trade House Yukos M LLC which owns operational and management assets of exploration and production and refining and marketing companies. Earlier Prana acquired these and other assets in auction that took place on May 11, 2007. The main purposes of the purchase were to acquire the relevant fixed and working capital assets, to facilitate the integration processes in relation to recently acquired oil production, refining and marketing companies that had previously been managed and optimized by these entities acquired from Prana and also to minimize operational, financial and other intragroup risks of the assets previously acquired. The acquisition price amounted to RUB 87.56 billion (US\$ 3.38 billion at the CBR official exchange rate as of the dates of acquisitions).

As a result of the preliminary allocation the acquisition price was allocated to the fair value of assets acquired and liabilities assumed in the amount of US\$ 1.78 billion.

Over the course of the above described auctions in the second quarter of 2007, the Company acquired more than 100 legal entities, including three large upstream subsidiaries with significant current production and estimated proved and probable reserves, five refineries with significant aggregate economic distillation capacity, significant number of retail stations as well as management assets including real estate, IT, personnel and know-how which for previous years had been operating the assets. These acquisitions cost the Company \$13.6 billion net of cash received for the intended sale of 50% interest in OJSC Tosmskneft VNK and certain other assets (see Notes 7 and 9). As a result, the Company significantly increased its crude oil production and refining capacity, entered new geographical markets and substantially expanded its retail network and customer base thus creating a platform to achieve better downstream margins and added flexibility in netback options. Through such increased margins and incremental flexibility, management is also confident that these acquisitions increase Rosneft's ability to earn a higher rate of return across its asset portfolio. Such value stems from the synergies which exist between the assets acquired both across lots and with Rosneft's historical assets as well as strategic benefits drawn from the new markets and geographic regions to which the Company now has access.

Based on the preliminary allocation, total goodwill in the amount of US\$ 5.45 billion is attributed primarily to the refinery, marketing and distribution segment (US\$ 3.57 billion), as well as to the exploration and production segment (US\$ 1.88 billion) which are both expected to benefit from the synergies of the acquisitions. None of the goodwill is deductible for tax purposes.

The Company consolidated the operating results of the acquired assets starting from the date on which ownership was transferred. The transfer date is different for every asset and depends on the date of the shareholders' register entry (for joint-stock companies) or the notice date (for limited liability companies).

## OJSC Rosneft Oil Company

### Notes to Interim Condensed Consolidated Financial Statements (continued)

#### 3. Significant Acquisition (continued)

The following table summarizes the Company's preliminary purchase price allocation to the fair value of assets acquired and liabilities assumed:

<b>ASSETS</b>	
<b>Current assets:</b>	
Cash and cash equivalents	\$ 1,085
Short-term investments	636
Accounts receivable	2,482
Inventories	789
Prepayments and other current assets	483
<b>Total current assets</b>	<b>5,475</b>
Long-term investments	571
Property, plant and equipment	12,564
Deferred tax assets	93
Other non-current assets	193
<b>Total non-current assets</b>	<b>13,421</b>
<b>Total assets</b>	<b>\$ 18,896</b>
<b>LIABILITIES</b>	
Accounts payable	\$ 1,023
Short-term loans and borrowings and current portion of long-term debt	2,396
Income and other tax liabilities	507
Deferred tax liability	26
Other current liabilities	318
<b>Total current liabilities</b>	<b>4,270</b>
Asset retirement obligations	135
Long-term debt	954
Deferred tax liability	1,898
Other non-current liabilities	45
<b>Total non-current liabilities</b>	<b>3,032</b>
<b>Total liabilities</b>	<b>\$ 7,302</b>
<b>Total net assets acquired</b>	<b>\$ 11,594</b>
<b>Minority interest</b>	<b>\$ (11)</b>
<b>Purchase price</b>	<b>\$ 17,028</b>
<b>Goodwill</b>	<b>\$ 5,445</b>

Property, plant and equipment includes mineral rights in the amount of US\$ 94 million.

Other current liabilities include accrued liabilities for preacquisition contingencies in the amount of US\$ 221 million. These contingent liabilities arose from lawsuits, including those on tax matters, against the newly acquired companies.

This purchase price allocation and the allocation of goodwill between reporting units is preliminary and the Company expects to finalize it before December 31, 2007.

Pro forma financial information assuming that the acquisition of assets occurred as of the beginning of 2006 has not been presented herein as is required by SFAS 141, *Business Combinations*. This information is not presented as the Company does not have access to reliable US GAAP financial information regarding the acquired assets for the periods prior to the acquisition.



# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 4. Other Acquisitions

#### **OJSC Ohinskaya TETS**

In January 2007, the Company paid RUB 629 million (US\$ 24 million at the CBR exchange rate as of the transaction date) to acquire 55,331,951 ordinary shares of OJSC Ohinskaya TETS. As a result of this acquisition, the Company now controls 85.61% of this entity's total equity. OJSC Ohinskaya TETS is the local Sakhalin producer and seller of electrical power and heat. One of the main consumers of OJSC Ohinskaya TETS's production is RN-Sakhalinmorneftegaz LLC, the Company's subsidiary. The primary reason for this acquisition was to improve electricity supply management. The purchase price was fully allocated to the fair value of assets acquired and liabilities assumed. The results of operations of OJSC Ohinskaya TETS are not significant and therefore pro forma financial information has not been disclosed herein.

In April 2007, the Company acquired 9,876,869 ordinary shares of additional share issue of OJSC Ohinskaya TETS, thus increasing its share in the entity's total equity to 87.52%. The purchase price amounted to RUB 112 million (US\$ 4 million at the CBR official exchange rate as of the dates of acquisition).

#### **OJSC Verkhnechonskneftegaz**

In January 2007, the Company bought 339,582 ordinary shares of additional share issue of OJSC Verkhnechonskneftegaz for RUB 201 million (US\$ 7.6 million at the CBR exchange rate as of the transaction date). Through this purchase the Company maintained its previous share of 25.94% in this investment.

#### **CJSC Yukos-Mamontovo**

In April, 2007, the Company received the title to 100% interest in CJSC Yukos-Mamontovo in settlement of an ownership claim brought by the Company. The title to this asset was transferred in accordance with the court ruling adopted by the Moscow Arbitration Court. CJSC Yukos-Mamontovo is the owner of service facilities leased by RN-Yuganskneftegaz and used in crude oil production. As a result of the settlement of the claim, the Company recorded a gain of US\$60 million in other income reflecting the net monetary assets of CJSC Yukos-Mamontovo.

#### **CJSC Vlakra**

In late June 2007, the Company acquired 5,860 ordinary shares of CJSC Vlakra which represented 50% of the total number of ordinary shares issued by this entity. CJSC Vlakra has the right to use a land plot and office premises located in Moscow.

The purchase price of the above shares amounted to US\$ 108 million and was paid in cash. The acquisition price was fully allocated to the fair values of the assets acquired and liabilities assumed. The Company accounts for this investment under the equity method of accounting.

## OJSC Rosneft Oil Company

### Notes to Interim Condensed Consolidated Financial Statements (continued)

#### 5. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	<b>June 30, 2007 (unaudited)</b>	<b>December 31, 2006</b>
Cash on hand and in bank accounts in RUB	\$ 1,222	\$ 244
Cash on hand and in bank accounts in foreign currencies	451	192
Deposits and other	770	69
<b>Total cash and cash equivalents</b>	<b>\$ 2,443</b>	<b>\$ 505</b>

Cash accounts denominated in foreign currencies represent primarily cash in US\$.

Deposits and other represent primarily bank deposits denominated in RUB that may be readily convertible into cash and may be withdrawn by the Company at any time without prior notice or penalties.

#### 6. Accounts Receivable, Net

Accounts receivable comprise the following:

	<b>June 30, 2007 (unaudited)</b>	<b>December 31, 2006</b>
Trade receivables	\$ 2,154	\$ 1,176
Value added tax receivable	2,438	2,092
Other taxes	721	117
Banking loans to customers	626	580
Accounts receivable from Yukos Oil Company	18	810
Other	509	129
Less: allowance for doubtful accounts	(169)	(65)
<b>Total accounts receivable, net</b>	<b>\$ 6,297</b>	<b>\$ 4,839</b>

The Company's trade accounts receivable are denominated primarily in US dollars.

Value added tax receivable (VAT) primarily includes input VAT associated with export sales, which is reimbursed from the budget in accordance with Russian tax legislation.

Accounts receivable from Yukos Oil Company as of June, 30, 2007, represent indebtedness to Company's subsidiaries acquired at the auctions in the second quarter of 2007 (see Note 3).

In June 2007, the Company received an amount of about RUB 252.6 billion (US\$ 9.8 billion at the CBR exchange rate as of June 30, 2007) from the receiver as a result of Yukos Oil Company bankruptcy proceedings. An amount of US\$ 483 million was recorded as a repayment of debt receivable previously acquired, US\$ 1,396 million was recorded as a collection of accounts receivable, and the remaining US\$ 7,920 million was recorded as income in the consolidated statement of income and comprehensive income.

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 7. Assets Held-for-Sale

The Company is committed to sell a portion (50% interests) of certain assets, acquired via auction sales (Note 3). The Company expects to complete the sale transaction before the end of 2007. These acquired assets meet the Held-for-sale recognition criterion of SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*

Assets held-for-sale comprise 100% value of OJSC Tomskneft VNK, Strezhevskoy Refinery LLC and several other companies which were acquired at the auction for the sale of interests in companies located in Western and Eastern Siberia (see Note 3).

As of June 30, 2007 all current held-for-sale assets of the subsidiaries amounting to US\$ 491 million, non-current assets amounting to US\$ 4,088 million, short-term liabilities amounting to US\$ 2,037 million, long-term liabilities amounting to US\$ 485 million are included in the balance sheet captions of the Assets held-for-sale and Liabilities related to assets held-for-sale.

Upon completion of the sale, the interest in the above entities remaining with the Company will be accounted for using the equity method of accounting.

### 8. Property, Plant and Equipment

	Initial cost		Accumulated depreciation		Net carrying amount	
	June 30, 2007 (unaudited)	December 31, 2006	June 30, 2007 (unaudited)	December 31, 2006	June 30, 2007 (unaudited)	December 31, 2006
Exploration and production	\$ 43,254	\$ 38,553	\$ (7,098)	\$ (5,814)	\$ 36,156	\$ 32,739
Refining, marketing and distribution	10,024	3,493	(943)	(703)	9,081	2,790
Other activities	1,761	523	(472)	(107)	1,289	416
<b>Total property, plant and equipment</b>	<b>\$ 55,039</b>	<b>\$ 42,569</b>	<b>\$ (8,513)</b>	<b>\$ (6,624)</b>	<b>\$ 46,526</b>	<b>\$ 35,945</b>

### 9. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities include:

	June 30, 2007 (unaudited)	December 31, 2006
Trade accounts payable	\$ 1,516	\$ 851
Salary and other benefits payable	210	130
Advances received	3,585	350
Dividends payable	549	2
Banking customer accounts	465	390
Promissory notes payable	—	2
Obligations under Total E&P Vankor claim	134	134
Other	333	139
<b>Total accounts payable and accrued liabilities</b>	<b>\$ 6,792</b>	<b>\$ 1,998</b>

The Company's accounts payable are denominated primarily in RUB.

As of June 30, 2007, the advances received primarily comprise funds obtained from a related party in relation to the expected sale of assets (see Note 7) in the total amount of US\$ 3,400 million.

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 10. Short-Term Loans and Long-Term Debt

Short-term loans and borrowings comprise the following:

	<b>June 30, 2007 (unaudited)</b>	<b>December 31, 2006</b>
Bank loans – US\$ denominated	\$ 12,697	\$ 79
Bank loans – RUB denominated	14	2,517
Customer deposits – US\$ denominated	23	29
Customer deposits – RUB denominated	241	164
Promissory notes payable	1,003	771
Other	689	505
	14,667	4,065
Current portion of long-term debt	2,419	2,362
<b>Total short-term loans and current portion of long-term debt</b>	<b>\$ 17,086</b>	<b>\$ 6,427</b>

US\$ denominated short-term loans represent loans received from a consortium of international banks and inter-bank loans raised by the Company's subsidiary bank. The interest rates for loans received from a consortium of international banks ranged from LIBOR plus 0.25 p.a. to 7% p.a.. The interest rates for inter-bank loans received ranged from LIBOR plus 2.19% p.a. to LIBOR plus 2.80% p.a..

In March 2007, two companies within the Group signed loan agreements with a consortium of international banks for the amount of US\$ 9.5 billion for 6 months, US\$ 6 billion for 12 months and US\$ 6.5 billion for 12 months with the right to extend to 18 months. These loan agreements are at LIBOR plus 0.25-0.50% annual interest rate depending on the final settlement date. These loans were drawn to finance the planned acquisition of assets during the auctions for sales of the assets of Yukos Oil Company. These bridge loans were partially refinanced by a long-term loan in July 2007 in the amount of US\$ 1.1 billion and therefore this part of this debt is classified as long-term as of June 30, 2007. As of June 30, 2007, the amount of loans outstanding which were not refinanced was US\$ 12.3 billion and is included in the Bank loans – US\$ denominated.

In May 2007, the Company drew down a loan from a Russian bank in the amount of US\$ 250 million, at 7% p.a. interest with a term of one year. This loan was used to finance the Company's day-to-day operations.

RUB denominated loans include primarily inter-bank loans attracted by the Company's subsidiary bank with the interest in the range of 3,5% -4,5% p.a.

Customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary bank, denominated in RUB and foreign currencies. Customer deposits denominated in RUB bear an interest rate ranging from 0% to 12.2% p.a. Customer deposits denominated in foreign currencies bear an interest rate ranging from 0% to 8% p.a.

Promissory notes are primarily payable on demand. The promissory notes bear interest rates ranging from 0% to 18%. The promissory notes are recorded at amortized cost.

Other borrowings primarily include RUB denominated borrowings provided by Yukos Capital S.a.r.l., which bear interest of 9% p.a. and mature in the end of 2007.

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 10. Short-Term Loans and Long-Term Debt (continued)

Long-term debt comprises the following:

	<b>June 30, 2007</b>	<b>December 31,</b>
	<b>(unaudited)</b>	<b>2006</b>
Bank loans – foreign currencies	\$ 7,183	\$ 4,826
Bank loans raised for funding the acquisition of OJSC Yuganskneftegaz – US\$ denominated	4,278	4,780
Borrowings – US\$ denominated	14	30
Customer deposits – foreign currencies	13	15
Borrowings – RUB denominated	34	2
Customer deposits – RUB denominated	84	85
Bonds of the subsidiary bank – RUB denominated	4	4
Other long-term liabilities – RUB denominated	981	22
	<b>12,591</b>	9,764
Current portion of long-term debt	<b>(2,419)</b>	<b>(2,362)</b>
<b>Total long-term debt</b>	<b>\$ 10,172</b>	<b>\$ 7,402</b>

The interest rates on the Company's long-term bank loans denominated in foreign currencies range from 4.35% to 5.97% p.a. Weighted average interest rates on these loans were 5.88% and 5.96% (LIBOR plus 0.56%, LIBOR plus 0.64%) as of June 30, 2007 and December 31, 2006, respectively. These bank loans are primarily secured by contracts for the export of crude oil.

In May 2007, the Company signed a loan agreement with the syndicate of international banks in the total amount of US\$ 2 billion with a term of five years at LIBOR plus 0.5% p.a. within the first three years and LIBOR plus 0.575% p.a. within the remaining period. The loan was used to repay a portion of the six-month bridge-loan previously received from the consortium of international banks in the amount of US\$ 2.5 billion. The syndication of this loan in July 2007 resulted in additional borrowings being raised of US\$ 1,098 million taking the total borrowings under this arrangement to US\$ 3,098 billion. The additional funds were used for repayment of the bridge-loan raised for acquisition of assets at the auctions (see Note 3).

In January 2006, a subsidiary of the Company registered in Cyprus signed a loan agreement with a major international bank for an amount of EUR 188 million or US\$ 252.79 million using the CBR rate as of June 30, 2007. The loan bears an interest rate of EURIBOR plus 0.35%. As of June 30, 2007 the drawdown amount was of EUR 136.3 million or US\$ 183.3 million using the CBR rate as of June 30, 2007. Funds borrowed are to be invested in the construction of ice-reinforced tankers for crude oil transportation purposes in north-western regions of the Russian Federation. The loan is scheduled to be repaid within the twelve years following the completion of tanker construction.

As of June 30, 2007 the bank loans raised for funding the acquisition of OJSC Yuganskneftegaz represent a long-term loan obtained through a government-owned bank at a rate of LIBOR plus 0.7% p.a. repayable in equal monthly installments. It is scheduled for repayment in 2011 in full. This loan is secured by the Company's receivables under a long-term contract for the supply of crude oil (see Note 15).

Customer deposits include fixed-term RUB and foreign currency denominated customer deposits placed with the Company's subsidiary bank which mature primarily during 2007 and are included in the current portion of long-term debt. The RUB-denominated deposits bear an interest rate ranging from 2% to 12% p.a. Deposits denominated in foreign currencies bear an interest rate of 5.5% p.a.

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 10. Short-Term Loans and Long-Term Debt (continued)

As of June 30, 2007, other long-term liabilities include promissory notes which mature in 2008-2012. The promissory notes bear interest rates ranging from 0% to 11%, and recorded at amortized cost.

Generally, long-term loans are secured by crude oil export contracts. Usually, under the terms of such contracts, the lender is provided with an express right of claim for contractual revenue which must be remitted directly to transit currency (US\$ denominated) accounts with those banks, should the Company fail to repay its debt in time.

The Company is obliged to comply with a number of restrictive financial and other covenants contained within its loan agreements. Restrictive covenants include maintaining certain financial ratios. As a result of the Company's acquisition of OJSC Yuganskneftegaz in December 2004, and the resulting debt incurred and assets and liabilities, including contingent liabilities, consolidated, the Company was not in compliance with various financial and other covenants of existing loan agreements as of December 31, 2004.

In July 2005, the creditors waived violations related to restrictive financial ratios and agreed to amend the financial ratio covenants in line with the Company's new structure and new scope of activities. The creditors also waived other events of default arising from the breach of other covenant provisions. Effective January 1, 2007, the creditors granted amendments to the loan agreements which remove these provisions and have included new waivers which state that the Company must:

- redeem, secure, discharge in full or restructure (and comply with any restructuring plans once it is agreed upon) all OJSC Yuganskneftegaz's tax liabilities by January 3, 2008 (see Note 15);
- pay any arbitration award relating to Moravel Litigation (see Note 15) or the Yukos Capital S.a.r.l. Litigation if any such arbitration award is granted by a court of the Russian Federation, within the time frame provided for such payment under Russian Law.

These conditions also apply to certain new borrowings obtained throughout the first six months of 2007. As of June 30, 2007, the Company is in compliance with all restrictive financial and other covenants contained within its loan agreements.

The aggregate maturity of long-term debt outstanding as of June 30, 2007 is as follows (assuming the debt will not be called by creditors ahead of scheduled maturities):

	<b>(unaudited)</b>
Up to December 31, 2007	\$ 1,206
2008	2,845
2009	4,126
2010	2,900
2011	1,037
2012 and after	477
<b>Total long-term debt</b>	<b>\$ 12,591</b>

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 11. Shareholders' Equity

In June 2007, the annual general shareholders' meeting approved dividends on the Company's common shares for 2006 in the amount of RUB 14.1 billion or US\$ 546 million at the CBR exchange rate as at the date of decision, which corresponds to US\$ 0.05 per share.

In April 2007, Company's subsidiary received title to 1 billion (9,44% of share capital) ordinary shares of Rosneft after it had won the auction for the acquisition of the above shares previously owned by Yukos Oil Company. The purchase price for the consolidation financial reporting purposes amounted to RUB 194.45 billion for Rosneft shares, or RUB 194.45 per share (US\$ 7.54 billion and US\$ 7.54 per share at the CBR exchange rate as of the purchase date, respectively). These shares were recorded at their purchase price and treated as treasury shares and therefore shown as deduction from shareholders' equity.

### 12. Revenue Related Taxes

Revenues include the following export customs duty:

	Three months ended June 30, 2007 (unaudited)	Three months ended June 30, 2006 as restated (unaudited)	Six months ended June 30, 2007 (unaudited)	Six months ended June 30, 2006, as restated (unaudited)
<i>Oil and gas sales</i>				
Export customs duty	\$ 2,163	\$ 2,306	\$ 4,475	\$ 4,140
<i>Petroleum products and processing fees</i>				
Export customs duty	351	323	717	653
<b>Total revenue related taxes</b>	<b>\$ 2,514</b>	<b>\$ 2,629</b>	<b>\$ 5,192</b>	<b>\$ 4,793</b>

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 13. Income Tax

Income tax comprises the following:

	Three months ended June 30, 2007 (unaudited)	Three months ended June 30, 2006 as restated (unaudited)	Six months ended June 30, 2007 (unaudited)	Six months ended June 30, 2006, as restated (unaudited)
Current income tax expense	\$ 1,352	\$ 541	\$ 1,588	\$ 954
Deferred income tax expense / (benefit)	1,148	(57)	1,033	(135)
<b>Total income tax expense</b>	<b>\$ 2,500</b>	<b>\$ 484</b>	<b>\$ 2,621</b>	<b>\$ 819</b>

The most significant reconciling items between theoretical income tax expense and recorded tax are foreign exchange effects and tax penalties and tax related interest (See Note 15). However, the variations in the customary relationship between income tax expense and pretax accounting income are overall not significant.

### 14. Related Party Transactions

In the course of its usual activity, the Company regularly enters into transactions with other enterprises which are directly or indirectly controlled by the Russian Government. Such enterprises are business units of RAO UES, OJSC Gazprom, OJSC Russian Railways, OJSC Sberbank, Vnesheconombank, OJSC Bank VTB, CJSC Gazprombank, OJSC AK Transneft and federal agencies including tax authorities. Management considers these business relations as part of regular activities in the Russian Federation and believes that they will remain unchanged in the foreseeable future.

Total amounts of transactions with companies controlled by the Government of the Russian Federation for each of the reporting periods ending June 30, as well as related party balances as of June 30, 2007 and December 31, 2006 are provided in the table below:

	Six months ended June 30, 2007 (unaudited)	Six months ended June 30, 2006 as restated (unaudited)
<b>Revenues</b>		
Oil and gas sales	\$ 34	\$ 3
Sales of petroleum products and processing fees	81	107
Support services and other revenues	3	2
	<b>\$ 118</b>	<b>\$ 112</b>
<b>Costs and expenses</b>		
Pipeline tariffs and transportation costs	\$ 1,245	\$ 937
Other expenses	43	19
	<b>\$ 1,288</b>	<b>\$ 956</b>
<b>Other operations</b>		
Sale of short-term and long-term investments	\$ –	\$ 4
Acquisition of short-term and long-term investments	–	1
Proceeds from short-term and long term debt	3,868	2,889
Repayment of short-term and long term debt	6,705	4,405
Deposits placed	–	8,759
Deposits paid	55	7,999
Borrowings issued	–	84
Repayment of borrowings issued	–	23
Interest expense	169	212
Interest income	4	9
Banking fees	\$ 3	\$ –



# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 14. Related Party Transactions (continued)

	June 30, 2007 (unaudited)	December 31, 2006
<b>Assets</b>		
Cash and cash equivalents	\$ 893	\$ 69
Accounts receivable	21	20
Prepayments and other current assets	127	137
Short-term and long-term investments	–	172
	<b>\$ 1,041</b>	<b>\$ 398</b>
<b>Liabilities</b>		
Accounts payable	\$ 31	\$ 24
Short-term and long-term debt (including interest)	4,534	7,282
Advances received	3,400	–
	<b>\$ 7,965</b>	<b>\$ 7,306</b>

Total amounts of transactions with related parties, (except for those controlled by the Government of the Russian Federation), which are primarily equity investees and joint ventures, for each of the reporting periods ending June 30, as well as related party balances as of June 30, 2007 and December 31, 2006 are provided in the table below:

	Six months ended June 30, 2007 (unaudited)	Six months ended June 30, 2006 as restated (unaudited)
<b>Revenues</b>		
Oil and gas sales	\$ 13	\$ 15
Sales of petroleum products and processing fees	65	37
Support services and other revenues	40	18
	<b>\$ 118</b>	<b>\$ 70</b>
<b>Costs and expenses</b>		
Purchase of oil and petroleum products	\$ 446	\$ –
Other expenses	47	34
	<b>\$ 493</b>	<b>\$ 34</b>
<b>Other operations</b>		
Sale of short-term and long-term investments	\$ –	\$ 18
Acquisition of short-term and long-term investments	8	46
Proceeds from short-term and long term debt	8	4
Repayment of short-term and long term debt	7	29
Borrowings issued	5	81
Repayment of borrowings issued	1	3
Interest expense	3	3
Interest income	41	6
Dividends received	\$ 9	\$ 3
	<b>\$ 9</b>	<b>\$ 3</b>
	<b>June 30, 2007 (unaudited)</b>	<b>December 31, 2006</b>
<b>Assets</b>		
Accounts receivable	\$ 70	\$ 33
Prepayments and other current assets	44	42
Short-term and long-term investments	131	121
	<b>\$ 245</b>	<b>\$ 196</b>
<b>Liabilities</b>		
Accounts payable	\$ 363	\$ 193
Short-term and long-term debt (including interest)	9	9
	<b>\$ 372</b>	<b>\$ 202</b>

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 15. Commitments and Contingencies

#### Russian Business Environment

Whilst there have been improvements in the Russian economic situation, such as an increase in gross domestic product and a reduced rate of inflation, Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government. In addition laws and regulations, including interpretations, enforcement and judicial processes, continue to evolve in Russia. Other laws and regulations and certain other restrictions producing a significant effect on the Company's industry, including, but not limited to the following issues: rights to use subsurface resources, environmental matters, site restoration, transportation and export, corporate governance, taxation, etc.

#### Taxation

Legislation and regulations regarding taxation in Russia continue to evolve. 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 penalties are levied when an understatement of a tax liability is discovered. As a result, the amounts of penalties and interest can be significant in relation to the amounts of unreported taxes.

In Russia tax returns remain open and subject to inspection for a period of up to three years. The fact that a year has been reviewed does not close that year, or any tax return applicable to that year, from further review during the three-year period.

Russian transfer pricing rules were introduced in 1999, giving Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, provided that the transaction price deviates from the market price by more than 20%. Controlled transactions include transactions between related entities and certain other types of transactions between independent parties, such as foreign trade transactions with significant (by more than 20%) price fluctuations.

The Russian transfer pricing rules are vaguely drafted, leaving wide scope for interpretation by Russian tax authorities and courts. Due to the uncertainties in interpretation of transfer pricing legislation, the tax authorities may challenge the Group's prices and propose an adjustment. If such price adjustments are upheld by the Russian courts and implemented, the Group's future financial results could be adversely affected. In addition, the Group could face losses associated with the assessment of prior tax underpaid and related interest and penalties, which could have an adverse effect on the Group's financial condition and results of operations. The Company's management believes that such transfer pricing related tax contingencies are possible but will not have any significant impact on the Company's financial statements.

The Company and its certain subsidiaries are currently being audited by tax authorities for the years 2004-2006 (for the period up to September 30, 2006). The Company's management believes that the outcome of these tax audits will not have any significant impact on the Company's financial statements.

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 15. Commitments and Contingencies (continued)

#### Taxation (continued)

The Company provides finance for operations of its subsidiaries by various means which may lead to certain tax risks. The Company's management believes that the related tax contingencies are remote rather than possible and will not have any significant impact on the Company's financial statements.

The Company is currently appealing a number of decisions made by the tax authorities not to reimburse VAT paid by the Company. The Company's related claims in the amount of RUB 12,096 million (US\$ 469 million at the CBR exchange rate as of the balance sheet date) have been upheld by various courts. The remaining claims in the amount of RUB 3,838 million (US\$ 149 million at the CBR exchange rate as of the balance sheet date) are still being heard in the courts.

Overall, management believes that the Company has paid or accrued all taxes that are applicable. For taxes other than income tax, where uncertainty exists, the Company has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Possible liabilities which were identified by management at the balance sheet date as those that can be subject to different interpretations of the tax laws and regulations are not accrued in the interim condensed consolidated financial statements.

As of June 30, 2007, the Company's subsidiaries which were acquired at the auctions (see Note 3) have disputes with tax authorities on the results of tax audits in the amount of US\$ 211 million, US\$ 139 million of which were recorded in Other current liabilities as preacquisition contingencies (see Note 3).

In May 2007, the governmental order was issued whereby Rosneft was included in the 'List of Strategic Companies of Russia'. As such Rosneft became generally eligible for tax restructuring procedure.

Following the intention of the Company to proceed with the tax restructuring process in respect of OJSC Yuganskneftegaz back-taxes, the tax authorities retroactively cancelled suspension of certain interest accruals for them to be fully included in the tax restructuring plan. These tax liabilities were already fully accrued in the consolidated financial statements in prior periods together with all penalties and a portion of interest before such interest accrual was suspended following the Company's applications for restructuring. As a result of the cancellation, additional interest of approximately US\$ 399 million became due as of June 30, 2007. The total amount of interest and penalties payable as of June 30, 2007 with respect to tax liabilities of OJSC Yuganskneftegaz amounted to US\$ 902 million. The interest will continue to accrue in accordance with the Tax Code of the Russian Federation at the CBR refinancing rate until the restructuring plan is approved by the Government of the Russian Federation which is currently expected before the end of 2007. The total principle amount subject to tax restructuring provisions is US\$ 1,270 million.

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 15. Commitments and Contingencies (continued)

#### Taxation (continued)

Tax restructuring rules generally provide for forgiveness of interest and penalties subject to overall compliance with the restructuring plan and accelerated payments of principal amounts of tax liabilities. The Company is committed to comply with the tax restructuring plan, including acceleration provision, when and if it is in force. The management concluded that the criteria of 'more-likely than-not' in respect of forgiveness of income tax related interest and penalties is currently not met as well as the 'probable' criteria in respect of forgiveness of all other tax interest and penalties. Therefore the accrual of additional interest in the amount of US\$ 332 million was recorded in the interim condensed consolidated financial statements for the first three months ended March 31, 2007 as a change in estimate. As discussed above, the interest continued to accrue in the second quarter of 2007 and additional accrual in the amount of US\$ 67 million was recorded in the interim condensed consolidated financial statements for the three months ended June 30, 2007.

#### Capital Commitments

The Company and its subsidiaries are engaged in ongoing capital projects for exploration and development of production facilities and modernization of refineries and the distribution network. The budgets for these projects are generally set on an annual basis. Depending on the current market situation, actual expenditures may vary from the budgeted amounts.

It is planned that future costs will be primarily self-financed. In addition, the Company is seeking external sources of financing. Management believes that the Company will receive all the financing required to complete both existing and scheduled projects.

#### Environmental Matters

Due to the nature of its business, Rosneft and its subsidiaries are subject to federal legislation regulating environmental protection. The majority of environmental liabilities arise as a result of accidental oil spills and leaks that pollute land, and air pollution. The Company considers fines paid and other environmental liabilities as immaterial, given the scale of its operations.

In the course of its operations, the Company seeks to comply with international environmental standards and monitors compliance therewith on a regular basis. With a view to improve environmental activities, the Company takes specific measures to mitigate the adverse impact of its current operations on the environment.

Legislation that regulates environmental protection in the Russian Federation is evolving, and the Company evaluates its liabilities in accordance therewith. Currently it is not possible to reasonably estimate the liabilities of the Company which may be incurred should the legislation be amended.

The management believes that, based on the existing legislation, the Company is unlikely to have liabilities that need to be accrued in addition to the amounts already recognized in the interim consolidated financial statements and that may have a material adverse effect on the operating results or financial position of the Company.

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 15. Commitments and Contingencies (continued)

#### Social Commitments

The Company is required to maintain certain social infrastructure assets (not owned by the Company and not recorded in the interim consolidated financial statements) for use by its employees.

The Company incurred US\$ 27 million and US\$ 19 million in social infrastructure and similar expenses for the first six months of 2007 and 2006, respectively. These expenses are presented as other expenses in the consolidated statement of income and comprehensive income.

#### Pension Plans

For the first six months of 2007 and 2006 the Company contributed under a defined contribution pension plan US\$ 31 million and US\$ 10 million, respectively, to the non-state corporate pension fund.

#### Insurance

As of June 30, 2007 and December 31, 2006 the amount of coverage on assets under the insurance for property damage and third party liability amounted to US\$ 2,337 million and US\$ 2,209 million, respectively.

#### Guarantees and Indemnity

As of June 30, 2007, the Company has provided guarantees for certain debt agreements primarily of its subsidiaries. In accordance with the debt agreements, the Company is obliged to perform on the guarantee and to pay the bank all amounts of outstanding guaranteed liabilities, including interest.

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.

After the full payment and settlement of all obligations under the guarantees, the Company has the right to subrogate its respective part of all bank claims against the debtor in accordance with the loan agreements. In the event the Company makes payments under guarantees issued, it has a right to claim the amounts paid from the debtor.

In January 2007, the Company signed a guarantee agreement in respect of all the obligations of CJSC Vankorneft per the irrevocable uncovered documentary letter of credit for the amount of US\$ 62 million and the period of up to 730 days. In the event of default, as specified in the agreement, the bank may request the Company to place a deposit in the amount necessary to ensure all of the Company's existing and potential obligations are payable for the period of validity of such letter of credit.

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 15. Commitments and contingencies (continued)

#### Guarantees and Indemnity (continued)

In January 2007, RN-Yuganskneftegaz LLC signed a guarantee agreement in respect of all the obligations of RN Energo LLC, the Company's subsidiary, under the contract of electricity supply with OJSC Tyumenskaya Energosbytovaya Companiya for the period until January 31, 2010, in the amount of approximately US\$ 58 million.

The Company's outstanding guarantees as of June 30, 2007 are as follows:

<b>Beneficiary Bank/Company</b>	<b>Loan debtor</b>	<b>Maturity date</b>	<b>Contractual principal amount</b>	<b>Maximum guarantee amount as of June 30, 2007</b>
Societe Generale S.A (as Facility Agent)	Yukos Oil Company	May 29, 2009	<b>1,600</b>	<b>662</b>

In May 2005, Moravel Investments Limited, an affiliate of Yukos Oil Company, filed an arbitral claim against OJSC Yuganskneftegaz in the London Court of International Arbitration for the recovery of US\$ 656 million pertaining to the loan of US\$ 1,600 million from Societe Generale S.A. The case was heard in July 2006. On April 16, 2007, the London Court of International Arbitration made an intermediate ruling to dismiss Moravel's claim to OJSC Yuganskneftegaz. On April 26, 2007, Moravel informed the Company that in its view the intermediate ruling was a nullity and accused the Company of a repudiatory breach of the arbitration clause contained in the guarantee under which the London Court of International Arbitration was brought. Moravel reserved its rights to challenge the interim ruling. The Company expects to receive the final ruling by the end of 2007. On March 17, 2006, the Moscow Arbitration Court ruled that the guarantee agreement signed by OJSC Yuganskneftegaz with respect to Yukos Oil Company loan received from Societe Generale S.A. in the amount of US\$ 1,600 million was invalid. This ruling was upheld on May 15, 2006 by the 9<sup>th</sup> Appeal Arbitration Court in appeal hearings, which made it legally binding and enforceable. This ruling was also upheld in cassational instance on August 31, 2006.

Currently the Company is also actively challenging in arbitration courts of the Russian Federation the validity of guarantee agreements signed by OJSC Samaraneftegaz and OJSC Tomskneft with respect to Yukos Oil Company loan received from Societe Generale S.A. with identical conditions and under identical circumstances as for the guarantee discussed above. Therefore, the Company's management believes that the probability of payments under these guarantees is remote.

#### Litigation, Claims and Assessments

The Company is a co-defendant in the litigation in the USA in respect of the acquisition of OJSC Yuganskneftegaz. This litigation was brought by certain holders of American Depository Receipts (ADR) of Yukos Oil Company seeking unspecified damages due to the fall in the market value of the ADRs. On July 13, 2006, plaintiffs filed an amended complaint. The amended complaint seeks to recover alleged losses resulting from events surrounding Yukos Oil Company, including levying of taxes upon Yukos Oil Company by the Russian Federation and the arrest of certain assets of Yukos Oil Company to pay owed taxes. Defendants filed motions to dismiss the claim on numerous grounds. The Company believes that this claim is without merit.

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 15. Commitments and Contingencies (continued)

#### Litigation, Claims and Assessments (continued)

The Company is also a co-defendant in litigation in the Moscow Arbitration Court with respect to the auction for the common shares of OJSC Yuganskneftegaz. This litigation was brought by Yukos Oil Company. The claimant is seeking to recover all the common shares of OJSC Yuganskneftegaz and also damages in the total amount of RUB 388 billion (approximately US\$ 15.0 billion at the CBR exchange rate as of June 30, 2006). In February 2007, the Moscow Arbitration Court dismissed Yukos Oil Company's claim and the dismissal was confirmed by the appeal instance on May 23, 2007. This ruling was also upheld in cassational instance on October 1, 2007.

OJSC Tomskneft VNK, the Company's wholly owned subsidiary, is involved in a number of litigations. The risk of losses under these litigations is estimated at RUB 1,551 million (US\$ 60 million at the CBR official exchange rate as of June 30, 2007) and is recognized in Other current liabilities as a preacquisition contingency (see Note 3).

The Company's and its subsidiaries are involved in other litigations which arise from time to time in the course of their business activities. The Company's management believes that the ultimate result of these litigations will not significantly affect the operating results or financial position of the Company.

#### License Agreements

In accordance with certain license agreements or separate agreements concluded from time to time with the local and regional authorities the Company is required to maintain certain levels of expenditures for health, safety and environmental protection, as well as maintain certain level of capital expenditures. Generally these expenditures are within the normal operating and capital budgets and are accounted for when incurred in accordance with existing accounting policies for respective costs and expenses.

#### Oil Supplies

In January 2005, the Company entered into a long-term contract until 2010 with China National United Oil Corporation for export supplies of crude oil in the total amount of 48.4 million tons to be delivered in equal annual amounts. The prices are determined based on usual commercial terms for crude oil deliveries.

### 16. Segment Information

Presented below is information about the Company's operating segments in accordance with SFAS 131, *Disclosures about Segments of an Enterprise and Related Information*. The Company determines its operating segments based on the nature of their operations. The performance of these operating segments is assessed by management on a regular basis. The exploration and production segment is engaged in field exploration and development and production of crude oil and natural gas. The refinery, marketing and distribution segment is engaged in processing crude oil and other hydrocarbons into petroleum products, as well as purchasing, sale and transportation of crude oil and petroleum products. The other activities segment consists of banking, finance services, drilling services, construction services 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 operating segment are consistent with those applied to the interim consolidated financial statements. Sales transactions for goods and services between the operating segments are carried out using prices agreed upon between Rosneft and its subsidiaries.

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 16. Segment Information (continued)

Operating segments for three months ended 30 June 2007:

	<b>Exploration and production (unaudited)</b>	<b>Refinery, marketing and distribution (unaudited)</b>	<b>Other activities (unaudited)</b>	<b>Total elimination (unaudited)</b>	<b>Consolidated (unaudited)</b>
Revenues from external customers	\$ 420	\$ 10,282	\$ 83	\$ –	\$ 10,785
Intersegmental revenues	2,429	537	426	(3,392)	–
<b>Total revenues</b>	<b>\$ 2,849</b>	<b>\$ 10,819</b>	<b>\$ 509</b>	<b>\$ (3,392)</b>	<b>\$ 10,785</b>
Operating expenses and cost of purchased oil and petroleum products	\$ 675	\$ 416	\$ 41	\$ –	\$ 1,132
Depreciation, depletion and amortization	\$ 252	\$ 585	\$ 13	\$ –	\$ 850
Operating income	\$ 1,476	\$ 4,163	\$ 427	\$ (3,392)	\$ 2,674
Total other income, net					7,483
Income before income tax					<u>\$ 10,157</u>

Operating segments for three months ended 30 June 2006 (as restated):

	<b>Exploration and production (unaudited)</b>	<b>Refinery, marketing and distribution (unaudited)</b>	<b>Other activities (unaudited)</b>	<b>Total elimination (unaudited)</b>	<b>Consolidated (unaudited)</b>
Revenues from external customers	\$ 116	\$ 8,421	\$ 65	\$ –	\$ 8,602
Intersegmental revenues	2,927	324	173	(3,424)	–
<b>Total sale revenues</b>	<b>\$ 3,043</b>	<b>\$ 8,745</b>	<b>\$ 238</b>	<b>\$ (3,424)</b>	<b>\$ 8,602</b>
Operating expenses and cost of purchased oil and petroleum products	\$ 415	\$ 366	\$ 57	\$ –	\$ 838
Depreciation, depletion and amortization	\$ 288	\$ 117	\$ 3	\$ –	\$ 408
Operating income	\$ 371	\$ 4,785	\$ 135	\$ (3,424)	\$ 1,867
Total other expenses, net					(275)
Income before income tax					<u>\$ 1,592</u>



## OJSC Rosneft Oil Company

### Notes to Interim Condensed Consolidated Financial Statements (continued)

#### 16. Segment Information (continued)

Operating segments for six months ended 30 June 2007:

	<b>Exploration and production (unaudited)</b>	<b>Refinery, marketing and distribution (unaudited)</b>	<b>Other activities (unaudited)</b>	<b>Total elimination (unaudited)</b>	<b>Consolidated (unaudited)</b>
Revenues from external customers	\$ 782	\$ 18,098	\$ 125	\$ –	\$ 19,005
Intersegmental revenues	3,840	1,018	708	(5,566)	–
<b>Total sales revenue</b>	<b>\$ 4,622</b>	<b>\$ 19,116</b>	<b>\$ 833</b>	<b>\$ (5,566)</b>	<b>\$ 19,005</b>
Operating expenses and cost of purchased oil and petroleum products	\$ 1,166	\$ 928	\$ 60	\$ –	\$ 2,154
Depreciation, depletion and amortization	\$ 832	\$ 674	\$ 17	\$ –	\$ 1,523
Operating income	\$ 2,191	\$ 6,100	\$ 709	\$ (5,566)	\$ 3,434
Total other income, net					7,203
Income before income tax					<u>\$ 10,637</u>
Total assets	\$ 41,499	\$ 19,350	\$ 9,756	\$ –	<u>\$ 70,605</u>

Operating segments for six months ended 30 June 2006 (as restated):

	<b>Exploration and production (unaudited)</b>	<b>Refinery, marketing and distribution (unaudited)</b>	<b>Other activities (unaudited)</b>	<b>Total elimination (unaudited)</b>	<b>Consolidated (unaudited)</b>
Revenues from external customers	\$ 233	\$ 15,591	\$ 105	\$ –	\$ 15,929
Intersegmental revenues	5,606	533	302	(6,441)	–
<b>Total sales revenue</b>	<b>\$ 5,839</b>	<b>\$ 16,124</b>	<b>\$ 407</b>	<b>\$ (6,441)</b>	<b>\$ 15,929</b>
Operating expenses and cost of purchased oil and petroleum products	\$ 727	\$ 775	\$ 67	\$ –	\$ 1,569
Depreciation, depletion and amortization	\$ 555	\$ 231	\$ 6	\$ –	\$ 792
Operating income	\$ 976	\$ 8,601	\$ 259	\$ (6,441)	\$ 3,395
Total other expenses, net					(623)
Income before income tax					<u>\$ 2,772</u>
Total assets	\$ 23,971	\$ 7,317	\$ 1,418	\$ –	<u>\$ 32,706</u>

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 16. Segment Information (continued)

Below is a breakdown of revenues by domestic and export sales, with a classification of export sales based on the country of incorporation of the foreign customer.

	Three months ended June 30, 2007 (unaudited)	Three months ended June 30, 2006 as restated (unaudited)	Six months ended June 30, 2007 (unaudited)	Six months ended June 30, 2006 as restated (unaudited)
<b>Oil and gas sales</b>				
Export sales of crude oil –				
Europe and other directions	\$ 4,819	\$ 4,367	\$ 8,750	\$ 7,940
Export sales of crude oil – Asia	1,455	1,337	2,684	2,300
Export sales of crude oil – CIS	468	345	830	740
Domestic sales of crude oil	391	21	429	79
Domestic sales of gas	75	44	154	94
<b>Total oil and gas sales</b>	<b>\$ 7,208</b>	<b>\$ 6,114</b>	<b>\$ 12,847</b>	<b>\$ 11,153</b>
<b>Petroleum products and processing fees</b>				
Export sales of petroleum				
products – Europe	1,042	780	1,842	1,590
Export sales of petroleum products – Asia	630	625	1,145	1,081
Export sales of petroleum products – CIS	62	48	86	86
Domestic sales of petroleum				
products and processing fees	1,643	954	2,799	1,869
<b>Total petroleum products and processing fees</b>	<b>\$ 3,377</b>	<b>\$ 2,407</b>	<b>\$ 5,872</b>	<b>\$ 4,626</b>

### 17. Fair Value of Financial Instruments and Risk Management

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 its exposure on a regular basis.

A substantial portion of the Company's sales revenues is received in US dollars. In addition, substantial financing and investing activities, obligations and commitments are also undertaken in US dollars. However, significant operating and investing expenditures, other obligations and commitments as well as tax liabilities are undertaken in rubles. As a result of any decline of the US dollar against the ruble, the Company is exposed to the corresponding currency risk.

The Company enters into contracts to economically hedge certain of its risks associated with ruble appreciation but these are not eligible for hedge accounting by SFAS 133.

During the first six months ended 30 June 2007, the Company entered into forward currency contracts which were being used to hedge this foreign currency risk of forecasted operating expense. These financial exposures are managed as an integral part of the Company's risk management program, which seeks to reduce the potentially adverse effect that the volatility of the exchange rate markets may have on operating results. Presently, the maximum term over which the Company has hedged exposures to the variability of the currency exchange rates under its derivative instruments is 12 months.

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 17. Fair Value of Financial Instruments and Risk Management (continued)

As a result of the above mentioned forward foreign currency contracts entered into in the first six months of 2007, fair value of forward contracts in the amount of US\$ 62.7 million was recorded as prepayments and other current assets in the consolidated balance sheet and the change in fair value was recognized as a foreign exchange gain in the amount of US\$ 47.6 million in the consolidated statement of income and comprehensive income, net of tax effects.

### 18. Subsequent Events

In July and August 2007, the Company and Neft-Aktiv LLC won a number of further auctions for the sale of certain assets of Yukos Oil Company. These assets comprise shares in various exploration and production, oilfield service and marketing companies located in Siberian and Volga regions of the Russian Federation, as well as the rights of claim of accounts receivable related mostly to the subsidiaries acquired by the Company at the auctions for Yukos assets. The purchase price of acquired assets amounted to RUB 41.9 billion (US\$ 1.6 billion at the CBR official exchange rate as of the dates of acquisitions). The Company is currently analyzing the assets acquired and liabilities assumed, including an assessment of the related tax and legal contingencies which existed as of the date of acquisition.

In July 2007, the Company won an auction for the exploration and development of Preobrazhenskoe oil and gas field in Irkutsk Region. The cost of the license amounted to RUR 928 billion (US\$ 36 million at the CBR rate as of June 30, 2007) and was paid in cash.

In August 2007, Rosneft International Limited, a wholly owned subsidiary of Rosneft, bought 100% of the shares of OJSC JV ANTARES for US\$ 55 million (RUB 1,408 million at the CBR exchange rate as of the transaction date). OJSC JV ANTARES is the owner of a network of gas stations and an oil tank farm in the Moscow Region. The Company is currently analyzing the assets acquired and liabilities assumed, including an assessment of the related tax and legal contingencies which existed as of the date of acquisition.

In August 2007, Rosneft International Limited bought 100% of the shares of Oxoil Limited (Cyprus) for US\$ 42 million (RUB 1,072 million at the CBR exchange rate as of the transaction date). Oxoil Limited owns through its subsidiaries a network of gas stations in the Moscow Region. The Company is currently analyzing the assets acquired and liabilities assumed, including an assessment of the related tax and legal contingencies which existed as of the date of acquisition.

In August 2007, the Company received loans from two Russian banks for one year in the amount of US\$ 330 million at 6.75% p.a. and US\$ 1 billion at 7% p.a.

In August 2007, OJSC Rosneft-Stavropolye, a wholly owned subsidiary of Rosneft, bought 100% of the shares of LLC Rokada Market for RUB 1,482 million (US\$ 57.8 million at the CBR exchange rate as of the transaction date), the owner of a network of gas stations and an oil tank farm in the Stavropol Region of Russia. The Company is currently analyzing the assets acquired and liabilities assumed, including an assessment of the related tax and legal contingencies which existed as of the date of acquisition.

In September 2007, the Company made a drawdown under a credit facility with a Russian bank in the amount of RUB 11.4 billion (US\$ 442 million at the CBR exchange rate as of the financial statements date) for one month.