ROSNEFT

OIL COMPANY

OPEN JOINT STOCK COMPANY

OJSC Oil Company Rosneft

Interim Condensed Consolidated Financial Statements

Three and six months ended June 30, 2008 and 2007

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Contents

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Consolidated Balance Sheets

(in millions of US dollars, except share amounts)

	Notes	June 30, 2008 (unaudited)	December 31, 2007
ASSETS			
Current assets:			
Cash and cash equivalents	**5**	**3,949**	998
Restricted cash	**5**	**44**	34
Short-term investments	**6**	**1,663**	338
Accounts receivable, net of allowance	**7**	**8,961**	9,785
Inventories	**8**	**2,354**	1,926
Deferred tax assets		**141**	156
Prepayments and other current assets	**9**	**1,655**	1,731
Total current assets		**18,767**	14,968
Non-current assets:			
Long-term investments	**10**	**2,883**	2,646
Long-term bank loans granted, net of allowance of US$ 20 and US$ 20, respectively		**391**	260
Property, plant and equipment, net	**11**	**53,076**	51,686
Goodwill	**3, 12**	**4,507**	3,789
Intangible assets, net	**12**	**696**	285
Deferred tax assets		**151**	57
Other non-current assets	**13**	**1,775**	1,114
Total non-current assets		**63,479**	59,837
Total assets		**82,246**	74,805
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	**14**	**4,741**	4,022
Short-term loans and current portion of long-term debt	**15**	**13,383**	15,550
Income and other tax liabilities	**17**	**2,818**	2,346
Deferred tax liabilities		**91**	118
Other current liabilities		**114**	88
Total current liabilities		**21,147**	22,124
Asset retirement obligations		**2,326**	2,130
Long-term debt	**15**	**13,293**	11,723
Deferred tax liabilities		**7,796**	7,626
Other non-current liabilities	**20**	**2,392**	2,485
Total non-current liabilities		**25,807**	23,964
Minority interest		**642**	277
Shareholders' equity:			
Common stock par value 0.01 RUB (shares outstanding: 9,598 million as of June 30, 2008 and December 31, 2007)		**20**	20
Treasury shares:			
- unpledged (at acquisition cost: 587.14 million and 1,000 million as of June 30, 2008 and December 31, 2007, respectively)		**(4,416)**	(7,521)
- pledged (at acquisition cost: 412.86 million and 0 as of June 30, 2008 and December 31, 2007, respectively)	**15**	**(3,105)**	–
Additional paid-in capital		**13,075**	13,075
Other comprehensive loss	**2**	**(16)**	–
Retained earnings	**16**	**29,092**	22,866
Total shareholders' equity		**34,650**	28,440
Total liabilities and shareholders' equity		**82,246**	74,805

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

OJSC Oil Company Rosneft

Consolidated Statements of Income and Comprehensive Income

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

	Notes	Three months ended June 30, 2008 (unaudited)	Three months ended June 30, 2007 (unaudited)	Six months ended June 30, 2008 (unaudited)	Six months ended June 30, 2007 (unaudited)
Revenues					
Oil and gas sales	**18, 23**	**11,767**	7,208	**20,458**	12,847
Petroleum products sales and processing fees	**18, 23**	**8,994**	3,377	**16,359**	5,872
Support services and other revenues		**373**	200	**685**	286
Total		**21,134**	10,785	**37,502**	19,005
Costs and expenses					
Production and operating expenses		**1,086**	734	**2,106**	1,276
Cost of purchased oil, gas, petroleum products and refining costs		**772**	398	**1,541**	878
General and administrative expenses		**431**	273	**789**	459
Pipeline tariffs and transportation costs		**1,402**	964	**2,783**	1,903
Exploration expenses		**49**	47	**123**	82
Depreciation, depletion and amortization		**1,076**	850	**2,030**	1,523
Accretion expense		**31**	12	**71**	23
Taxes other than income tax	**19**	**4,535**	2,319	**8,125**	4,235
Export customs duty	**18**	**5,807**	2,514	**10,285**	5,192
Total		**15,189**	8,111	**27,853**	15,571
Operating income		**5,945**	2,674	**9,649**	3,434
Other income/(expenses)					
Interest income		**95**	41	**169**	78
Interest expense		**(163)**	(443)	**(502)**	(644)
Loss on disposal of property, plant and equipment		**(30)**	(22)	**(26)**	(34)
Gain/(loss) on disposal of investments		**(3)**	24	**(4)**	28
Equity share in affiliates' (losses)/profits	**10**	**14**	9	**126**	(2)
Dividends and income/(loss) from joint ventures		**(4)**	5	**2**	6
Gain from Yukos Oil Company bankruptcy proceedings		**–**	7,920	**–**	7,920
Other expenses, net		**(26)**	(67)	**(28)**	(118)
Foreign exchange gain / (loss)		**(14)**	16	**(166)**	(31)
Total other income/(expenses)		**(131)**	7,483	**(429)**	7,203
Income before income tax and minority interest		**5,814**	10,157	**9,220**	10,637
Income tax	**19**	**(1,470)**	(2,500)	**(2,306)**	(2,621)
Income before minority interest		**4,344**	7,657	**6,914**	8,016
Minority interest in subsidiaries' earnings, net of tax		**(32)**	(2)	**(38)**	(3)
Net income		**4,312**	7,655	**6,876**	8,013
Other comprehensive income/(loss)	**2**	**(7)**	7	**(16)**	7
Comprehensive income		**4,305**	7,662	**6,860**	8,020
Net earnings per share (in US$) – basic and diluted		**0.45**	0.78	**0.72**	0.79
Weighted average number of shares outstanding (millions)		**9,598**	9,785	**9,598**	10,189

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

OJSC Oil Company Rosneft

Consolidated Statements of Cash Flows

(in millions of US dollars)

	Notes	Six months ended June 30, 2008 (unaudited)	Six months ended June 30, 2007 (unaudited)
Operating activities			
Net income		**6,876**	8,013
Adjustments to reconcile net income to net cash provided by operating activities:			
Effect of foreign exchange		**211**	71
Depreciation, depletion and amortization		**2,030**	1,523
Dry well expenses		**91**	16
Loss on disposal of property, plant and equipment		**26**	34
Deferred income tax		**(502)**	1,033
Accretion expense		**71**	23
Equity share in affiliates' (profits) / loss		**(126)**	2
Gain on disposal of investments		**4**	(28)
Acquisition of trading securities		**(80)**	(253)
Proceeds from sale of trading securities		**43**	238
Increase in allowance for doubtful accounts and bank loans granted		**10**	19
Minority interests in subsidiaries' earnings		**38**	3
Gain from Yukos Oil Company bankruptcy proceedings		**–**	(7,920)
Cash received from Yukos Oil Company bankruptcy receiver		**–**	9,316
Changes in operating assets and liabilities net of acquisitions:			
Decrease / (increase) in accounts receivable		**878**	(701)
Increase in inventories		**(428)**	(207)
Increase in restricted cash		**(10)**	(65)
Decrease in prepayments and other current assets		**77**	207
Increase in other non-current assets		**(331)**	(241)
Increase in long-term bank loans granted		**(131)**	(180)
Increase in interest payable		**58**	71
Increase in accounts payable and accrued liabilities		**180**	533
Increase in income and other tax liabilities		**453**	1,085
Decrease in other current and non-current liabilities		**(60)**	–
Net cash provided by operating activities		**9,378**	12,592

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

OJSC Oil Company Rosneft

Consolidated Statements of Cash Flows (continued)

(in millions of US dollars)

	Notes	Six months ended June 30, 2008 (unaudited)	Six months ended June 30, 2007 (unaudited)
Investment activities			
Capital expenditures		**(4,247)**	(2,288)
Acquisition of licences		**(47)**	(5)
Proceeds from disposals of property, plant and equipment		**17**	16
Acquisition of short-term investments, including			
Held-to-maturity securities		**(1,300)**	(105)
Available-for-sale securities		**(2)**	(11)
Proceeds from sale of short-term investments, including			
Held-to-maturity securities		**21**	30
Available-for-sale securities		**1**	–
Acquisition of long-term investments, including			
Held-to-maturity securities		**(159)**	(12)
Available-for-sale securities		**(13)**	(14)
Proceeds from sale of long-term investments, including			
Held-to-maturity securities		**5**	6
Available-for-sale securities		**8**	6
Acquisition of entities and additional shares in subsidiaries, net of cash acquired	**3**	**(12)**	(16,254)
Prepayment for disposal of equity interests		**–**	3,400
Repayment of debt receivable		**–**	483
Net cash used in investing activities		**(5,728)**	(14,748)
Financing activities			
Proceeds from short-term debt	**15**	**2,889**	22,932
Repayment of short-term debt		**(5,891)**	(12,067)
Proceeds from long-term debt		**3,625**	2,212
Repayment of long-term debt		**(1,366)**	(1,456)
Cash paid for acquisition of treasury shares		**–**	(7,537)
Dividends paid to minority shareholders in subsidiaries		**–**	(5)
Net cash (used in)/provided by financing activities		**(743)**	4,079
Increase in cash and cash equivalents		**2,907**	1,923
Cash and cash equivalents at beginning of period		**998**	505
Effect of foreign exchange on cash and cash equivalents		**44**	15
Cash and cash equivalents at end of period		**3,949**	2,443
Supplementary disclosures of cash flow information			
Cash paid for interest (net of amount capitalized)		**367**	482
Cash paid for income taxes		**1,960**	1,109

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

1. Nature of Operations

Open Joint Stock Company ("OJSC") Oil Company Rosneft ("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 ("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 2007 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 2007 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 2007 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, 2008 may not be indicative of the results of operations for the full year ended December 31, 2008. These interim condensed consolidated financial statements contain information updated through August 27, 2008.

2. Significant Accounting Policies (continued)

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

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.

Certain items in the consolidated balance sheet as of December 31, 2007 and the consolidated statement of cash flows for the six months ended June 30, 2007 were reclassified to conform to the current year presentation.

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. 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 have been translated into US dollars at exchange rates that are close to the actual rates of exchange prevailing on transaction dates where practicable.

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

As of June 30, 2008 and December 31, 2007, the Central Bank of the Russian Federation ("CBR") official rates of exchange were 23.46 rubles and 24.55 rubles per US dollar, respectively. Average rates of exchange in the first six months of 2008 and 2007 were 23.94 rubles and 26.08 rubles per US dollar, respectively. As of August 27, 2008, the official rate of exchange was 24.58 rubles 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.

2. Significant Accounting Policies (continued)

Principles of Consolidation

The interim condensed consolidated financial statements include the accounts of majority-owned, controlled subsidiaries and variable interest entities where the Company is a primary beneficiary. All significant 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 impairment, if any.

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.

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 to 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 Statement of Financial Accounting Standards ("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 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. The expected effective tax rate may vary slightly during the year. The effect of this variation on the Company's net income is immaterial.

2. Significant Accounting Policies (continued)

Derivative Instruments

All derivative instruments are recorded in the consolidated balance sheets at fair value in either other current assets, other non-current assets, other current liabilities or other non-current liabilities. Recognition and classification of a gain or loss that results from recognition of a derivative instrument at fair value depends on the purpose of issuing or holding the derivative instrument. Gains and losses from derivatives that are not accounted for as hedges under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, are recognized immediately in the consolidated statement of income and comprehensive income.

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 financial statements.

As of June 30, 2008 and 2007, the Company recorded other accumulated comprehensive loss in the amount of US$ 16 million (net of tax) and other comprehensive income in the amount of US$ 7 million (net of tax), respectively, which represent an unrealized loss (gain) resulting from the revaluation of available-for-sale investments.

Accounting for Buy/Sell Contracts

The Company applies the Financial Accounting Standards Board's ("FASB") Emerging Issues Task Force ("EITF") Issue No. 04-13*, Accounting for Purchases and Sales of Inventory with the Same Counterparty* ("Issue 04-13") which requires that two or more legally separate exchange transactions with the same counterparty, including buy/sell transactions, be combined and considered as a single arrangement for the purposes of applying the provisions of APB 29, *Accounting for Non-monetary Transactions*, when the transactions are entered into "in contemplation" of one another.

Sale and Repurchase Transactions Involving Securities

Transactions involving sale and repurchase of securities ("REPO") are accounted for as secured financing whereby the Company retains these securities in the balance sheet and records a liability to a counterparty within "Short-term loans and current portion of long-term debt" or "Long-term debt", depending on its maturity. The difference between sale and repurchase prices is treated as an interest expense recognized in the consolidated statement of income and comprehensive income over the term of the sale and repurchase transaction using the effective interest method.

Under the terms of the repurchase agreements, the value of assets underlying the debt is marked-to-market by the counterparty at its discretion, as frequently as on a daily basis. If the value of the underlying asset declines, the counterparty has the ability to require the Company to post additional margin—cash or other liquid collateral—to compensate for the decline in value of the asset. Conversely, if the value of the underlying asset increases, a portion of the margin previously posted may be returned to the Company.

3. Significant Acquisitions in 2007

From April through August 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. The acquired assets included movable and immovable properties, as well as equity interests in enterprises engaged in exploration and production, refining and marketing, service and maintenance companies.

The total acquisition price for the above properties and interests amounted to RUB 469.88 billion (US$ 18.22 billion at the CBR official exchange rate as of the dates of acquisitions).

The total acquisition price was allocated to the fair value of assets acquired and liabilities assumed in the amount of US$ 13.16 billion, including US$ 12.51 billion of business combinations presented in the table below.

Based on the purchase price allocation, total goodwill in the amount of US$ 5.06 billion is attributed primarily to the refinery, marketing and distribution segment (US$ 3.61 billion), as well as to the exploration and production segment (US$ 1.45 billion). Both segments are expected to benefit from the synergies of the acquisitions. Included in the exploration and production segment is goodwill in the amount of US$ 743 million related to OJSC Tomskneft VNK and certain other assets, 50% interests of which were sold in December 2007. None of the goodwill is deductible for income tax purposes.

The Company consolidated the operating results of the acquired assets starting from the dates on which respective ownership was transferred. The transfer dates are different for every asset and depend on the date of signing the transfer act (for joint-stock companies) or the notice date (for limited liability companies).

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

	Preliminary purchase price allocation at March 31, 2008	Purchase price allocation adjustments	Final purchase price allocation at June 30, 2008
ASSETS			
Current assets:			
Cash and cash equivalents	1,185	–	1,185
Short-term investments	698	(51)	647
Accounts receivable	3,122	174	3,296
Inventories	860	–	860
Prepayments and other current assets	546	2	548
Total current assets	**6,411**	**125**	**6,536**
Long-term investments	209	(72)	137
Property, plant and equipment	15,159	(892)	14,267
Intangible assets	334	349	683
Deferred tax assets	258	(10)	248
Other non-current assets	241	–	241
Total non-current assets	**16,201**	**(625)**	**15,576**
Total assets	**22,612**	**(500)**	**22,112**

3. Significant Acquisitions in 2007 (continued)

	Preliminary purchase price allocation at March 31, 2008	**Purchase price allocation adjustments**	**Final purchase price allocation at June 30, 2008**
LIABILITIES			
Accounts payable	1,226	2	1,228
Short-term loans and borrowings and current portion of long-term debt	2,498	24	2,522
Income and other tax liabilities	528	–	528
Deferred tax liabilities	237	–	237
Other current liabilities	380	–	380
Total current liabilities	**4,869**	**26**	**4,895**
Asset retirement obligations	908	–	908
Long-term debt	951	12	963
Deferred tax liabilities	2,410	231	2,641
Other non-current liabilities	193	–	193
Total non-current liabilities	**4,462**	**243**	**4,705**
Total liabilities	**9,331**	**269**	**9,600**
Total net assets acquired	**13,281**	**(769)**	**12,512**
Minority interest	**(8)**	**–**	**(8)**
Purchase price	**17,607**	**(44)**	**17,563**
Goodwill	**4,334**	**725**	**5,059**

Property, plant and equipment includes mineral rights in the amount of US$ 219 million.

Other current liabilities and other non-current liabilities include accrued liabilities for pre-acquisition contingencies in the amount of US$ 198 million and US$ 55 million, respectively. These contingent liabilities arose from lawsuits against the newly acquired companies. Tax related pre-acquisition contingencies in the amount of US$ 158 million are included within income and other tax liabilities.

Goodwill in the amount of US$ 5,059 includes US$ 743 million related to OJSC Tosmskneft VNK and certain other assets, 50% of which was sold in December 2007.

The adjusted preliminary purchase price allocation, which already includes adjustments made in 2007 and the first quarter of 2008, was further adjusted due to the revisions made in the second quarter of 2008 of fair values of the assets acquired and liabilities assumed, which primarily include refinement of the fair values of property, plant and equipment and intangible assets of marketing and distribution companies.

Pro forma financial information assuming that the acquisition of assets occurred as of the beginning of 2007, which is required by SFAS 141, *Business Combinations,* has not been presented herein as the Company does not have access to reliable US GAAP financial information regarding the acquired assets for the periods prior to the acquisition.

4. Other Acquisitions

Acquisition of Oil Product Retail Networks

In the third quarter of 2007, the Company acquired, via its subsidiaries, 100% of shares and interests in OJSC JV ANTARES, Oxoil Limited (Cyprus) and Rokada Market LLC for US$ 55 million, US$ 42 million and RUB 1,482 million (US$ 57.8 million at the CBR official exchange rate at the transaction date), respectively. The acquired assets included gas station networks and petroleum storage depots located in the Moscow region and the Stavropol region of the Russian Federation.

The following table summarizes the Company's final allocation of the purchase price of OJSC JV ANTARES, Oxoil Limited and Rokada Market LLC to the estimated fair value of assets acquired and liabilities assumed:

	Preliminary purchase price allocation at March 31, 2008	Purchase price allocation adjustments	Final purchase price allocation at June 30, 2008
Current assets	27	–	27
Non-current assets	157	9	166
Total assets	184	9	193
Current liabilities	25	–	25
Non-current liabilities	4	35	39
Total liabilities	**29**	**35**	**64**
Total net assets acquired	**155**	**(26)**	**129**
Minority interest	**–**	**(4)**	**(4)**
Purchase price	**155**	**–**	**155**
Goodwill	**–**	**30**	**30**

The purchase price allocation was adjusted due to the revisions made in the second quarter of 2008 of fair values of the assets acquired and liabilities assumed, which primarily include refinement of the fair values of property, plant and equipment, intangible assets, investments and deferred income tax liabilities.

Operating results of OJSC JV ANTARES, Oxoil Limited and Rokada Market LLC are not material and therefore pro forma financial information has not been disclosed in these financial statements.

5. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	June 30, 2008 (unaudited)	December 31, 2007
Cash on hand and in bank accounts in RUB	**540**	474
Cash on hand and in bank accounts in foreign currencies	**2,900**	111
Deposits	**482**	378
Other	**27**	35
Total cash and cash equivalents	**3,949**	998

The Company's deposits are denominated primarily in RUB.

5. Cash account Cash and Cash Equivalents (continued)

Cash accounts denominated in foreign currencies represent primarily cash in US$. They increased as a result of the treasury shares sale and repurchase transaction (see Note 15).

Restricted cash comprises the following:

	June 30, 2008 (unaudited)	December 31, 2007
Obligatory reserve with the CBR	**38**	25
Other restricted cash	**6**	9
Total restricted cash	**44**	34

6. Short-term Investments

Short-term investments comprise the following:

	June 30, 2008 (unaudited)	December 31, 2007
Short-term loans granted	**6**	4
Loans to related parties	**11**	25
Promissory notes held-to-maturity	**130**	123
Trading securities		
Promissory notes	**50**	1
State and corporate bonds	**137**	149
Other	**4**	4
Available-for-sale securities	**19**	18
Bank deposits	**1,296**	5
Other	**10**	9
Total short-term investments	**1,663**	338

7. Accounts Receivable, Net

Accounts receivable comprise the following:

	June 30, 2008 (unaudited)	December 31, 2007
Trade receivables	**4,108**	3,812
Value-added tax receivable	**2,448**	4,029
Other taxes	**647**	499
Banking loans to customers	**1,319**	996
Acquired receivables	**99**	140
Other	**422**	381
Less: allowance for doubtful accounts	**(82)**	(72)
Total accounts receivable, net	**8,961**	9,785

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

In the second quarter of 2008, the Company legally set off value added tax (VAT) receivables against income tax liabilities in the amount of RUB 10.2 billion (US$ 437 million at the CBR official exchange rate as of June 30, 2008).

VAT receivable primarily includes input VAT associated with export sales, which is reimbursed by the tax authorities in accordance with Russian tax legislation.

8. Inventories

Inventories comprise the following:

	June 30, 2008 (unaudited)	December 31, 2007
Materials and supplies	**570**	503
Crude oil and gas	**683**	516
Petroleum products	**1,101**	907
Total inventories	**2,354**	1,926

Materials and supplies mostly include spare parts. Petroleum products also include those designated for sale as well as for own use.

9. Prepayments and Other Current Assets

Prepayments and other current assets comprise the following:

	June 30, 2008 (unaudited)	December 31, 2007
Prepayments to suppliers	**657**	803
Insurance prepayments	**17**	21
Customs	**902**	814
Other	**79**	93
Total prepayments and other current assets	**1,655**	1,731

Customs primarily represent export duty prepayments related to the export of crude oil and petroleum products (see Note 18).

10. Long-Term Investments

Long-term investments comprise the following:

	June 30, 2008 (unaudited)	December 31, 2007
Equity method investments		
OJSC Tomskneft VNK	**1,511**	1,419
Polar Lights Company LLC	**169**	153
JV Rosneft-Shell Caspian Ventures Limited	**29**	27
OJSC Daltransgaz	**47**	49
OJSC Verkhnechonskneftegaz	**226**	222
CJSC Vlakra	**109**	108
OJSC Kubanenergo	**96**	102
OT Belokamenka LLC	**2**	2
Other	**209**	208
Total equity method investments	**2,398**	2,290
Available-for-sale securities		
Russian government bonds	**–**	1
OJSC TGK-11	**27**	43
Long-term promissory notes	**6**	7
Held-to-maturity securities		
Long-term loans granted	**2**	3
Long-term loans to equity investees	**423**	279
Cost method investments	**25**	19
Other	**2**	4
Total long-term investments	**2,883**	2,646

10. Long-Term Investments (continued)

Equity share in income/(loss) of material investments recorded using the equity method:

	Participation interest (percentage) as of June 30, 2008	Share in income/(loss) of equity investees: Six months ended June 30, 2008 (unaudited)	Share in income/(loss) of equity investees: Six months ended June 30, 2007 (unaudited)
Polar Lights Company LLC	**50.00**	**41**	10
OJSC Verkhnechonskneftegaz	**25.94**	**(9)**	(2)
JV Rosneft-Shell Caspian Ventures Limited	**51.00**	**2**	3
OJSC Tomskneft VNK	**50.00**	**92**	–
OJSC Daltransgaz	**25.00**	**(1)**	–
Other	**various**	**1**	(13)
Total equity share		**126**	(2)

11. Property, Plant and Equipment

Property, plant and equipment comprise the following:

	Cost		Accumulated depreciation		Net carrying amount	
	June 30, 2008 (unaudited)	December 31, 2007	June 30, 2008 (unaudited)	December 31, 2007	June 30, 2008 (unaudited)	December 31, 2007
Exploration and production	**52,064**	48,416	**(9,868)**	(8,437)	**42,196**	39,979
Refining, marketing and distribution	**12,312**	12,889	**(2,989)**	(2,372)	**9,323**	10,517
Other activities	**1,951**	1,512	**(394)**	(322)	**1,557**	1,190
Total property, plant and equipment	**66,327**	62,817	**(13,251)**	(11,131)	**53,076**	51,686

12. Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price of additional shares in various entities, acquired during 2007, in the refining, marketing and distribution segment and the exploration and production segment in the amounts of US$ 3,632 million and US$ 714 million, respectively, over the fair value of the corresponding share in net assets (see Notes 3 and 4) and US$ 161 million related to the refining, marketing and distribution segment acquisitions before 2007.

Intangible assets primarily include rights to leasehold land purchased with the assets of the companies acquired during 2007 (see Notes 3 and 4). Land rights are amortized based on an average useful life of 20 years.

	Cost		Accumulated amortization		Net carrying amount	
	June 30, 2008 (unaudited)	December 31, 2007	June 30, 2008 (unaudited)	December 31, 2007	June 30, 2008 (unaudited)	December 31, 2007
Land leasehold rights	**718**	274	**(36)**	–	**682**	274
Other	**21**	12	**(7)**	(1)	**14**	11
Total intangible assets	**739**	286	**(43)**	(1)	**696**	285

13. Other Non-current Assets

Other non-current assets comprise the following:

	June 30, 2008 (unaudited)	December 31, 2007
Advance payment in favor of Factorias Vulcano S.A.	**278**	233
Advances paid for capital construction	**828**	610
Debt issue costs	**63**	40
Long-term VAT receivable	**341**	85
Prepaid insurance	**20**	15
Long-term receivables (Note 22)	**62**	51
Catalysts	**75**	17
Other	**108**	63
Total other non-current assets	**1,775**	1,114

14. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities comprise the following:

	June 30, 2008 (unaudited)	December 31, 2007
Trade accounts payable	**1,716**	2,034
Salary and other benefits payable	**483**	286
Advances received	**532**	568
Dividends payable	**673**	2
Banking customer accounts	**996**	818
Accrued expenses	**138**	158
Other	**203**	156
Total accounts payable and accrued liabilities	**4,741**	4,022

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

15. Short-Term Loans and Long-Term Debt

Short-term loans and borrowings comprise the following:

	June 30, 2008 (unaudited)	December 31, 2007
Bank loans – foreign currencies	**4,694**	10,352
Bank loans – RUB denominated	**49**	51
Customer deposits – foreign currencies	**26**	20
Customer deposits – RUB denominated	**346**	291
Promissory notes payable	**44**	50
Promissory notes payable – Yukos related	**941**	904
Borrowings – RUB denominated	**493**	234
Borrowings – RUB denominated – Yukos related	**788**	728
Repurchase obligation	**2,352**	–
	9,733	12,630
Current portion of long-term debt	**3,650**	2,920
Total short-term loans and borrowings and current portion of long-term debt	**13,383**	15,550

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

Foreign currency denominated short-term bank loans primarily represent financing received from a consortium of international banks.

In March-May 2007, the Company obtained bridge financing from a consortium of international banks in the total amount of US$ 22.0 billion to finance acquisitions (see Note 3). These bridge loans were partially refinanced in February 2008 in the amount of US$ 2.97 billion by a syndicated 5-year loan bearing an interest rate of London Interbank Offered Rate ("LIBOR") plus 0.95% p.a. The remaining debt under these bridge loans was partially refinanced in July 2008 by a long-term loan in the amount of US$ 2.85 billion (see Note 25), therefore part of the debt is classified as long term as of June 30, 2008. As of June 30, 2008, the short-term outstanding amount under these loans is US$ 3.65 billion bearing an interest rate of LIBOR plus 0.5% p.a. and is included in the Bank loans – foreign currencies.

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 0.01% p.a. to 12.0% p.a. Customer deposits denominated in foreign currencies bear an interest rate ranging from 3.0% p.a. to 10.5% p.a.

Promissory notes are primarily payable on demand. The promissory notes bear interest rates ranging from 0% to 10.0% p.a. The promissory notes are recorded at amortized cost.

Promissory notes payable – Yukos related represent financing originally received from the entities that were related to Yukos Oil Company on the debt issue date. The promissory notes are primarily payable on demand and bear interest rates ranging from 0% to 18% p.a. The promissory notes are recorded at amortized cost.

RUB denominated borrowings represent interest-free loans received from equity investees.

RUB denominated borrowings – Yukos related primarily include borrowings provided by Yukos Capital S.a.r.l., which bore interest of 9% p.a. and matured at the end of 2007 (see Note 22).

In June 2008, the Group sold 412.86 million treasury shares of Rosneft to a syndicate of international banks for US$ 2.35 billion cash under a repurchase agreement. The Company has a right and obligation to repurchase the shares within one year. The repurchase obligation carries an interest of 5.76% p.a. In accordance with the repurchase agreement, this transaction was accounted for in the consolidated balance sheet as secured financing.

Long-term debt comprises the following:

	June 30, 2008 (unaudited)	**December 31, 2007**
Bank loans – foreign currencies	**12,305**	9,611
Bank loans raised for funding the acquisition of OJSC Yuganskneftegaz – US$ denominated	**3,193**	3,737
Borrowings – US$ denominated	**11**	12
Borrowings – RUB denominated	**21**	20
Borrowings – RUB denominated – Yukos related	**–**	12
Customer deposits – foreign currencies	**9**	10
Customer deposits – RUB denominated	**168**	146
Bonds issued by subsidiary bank – RUB denominated	**25**	24
Promissory notes payable	**95**	50
Promissory notes payable – Yukos related	**1,116**	1,021
	16,943	14,643
Current portion of long-term debt	**(3,650)**	(2,920)
Total long-term debt	**13,293**	11,723

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

The interest rates on the Company's long-term bank loans denominated in foreign currencies range from 3.11% to 5.8% p.a. Weighted average interest rates on these loans were 3.22% and 5.22% (LIBOR plus 0.76% and also LIBOR plus 0.62%) as of June 30, 2008 and December 31, 2007, respectively. These bank loans are primarily secured by contracts for the export of crude oil.

As of June 30, 2008, 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 to be fully repaid in 2011. This loan is secured by the Company’s receivables under a long-term contract for the supply of crude oil (see Note 22).

Customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary bank, denominated in RUB and foreign currencies. The RUB-denominated deposits bear interest rates ranging from 3.0% p.a. to 12.5% p.a. Deposits denominated in foreign currencies bear interest rates of 3.0%-10.5% p.a.

Promissory notes payable include promissory notes that bear interest rates ranging from 0% to 10% p.a. The promissory notes are recorded at amortized cost.

Promissory notes payable – Yukos related represent financing originally received from the entities that were related to Yukos Oil Company on the debt issue date. The promissory notes bear interest rates ranging from 0% to 12% p.a. and mature primarily in 2008 – 2009. The promissory notes are recorded at amortized cost.

Generally, long-term loans are secured by 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 make timely debt repayments.

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 provisions whereby 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;
- pay any arbitration award relating to Moravel Litigation (see Note 22) 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.

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

These conditions also apply to certain new borrowings obtained throughout 2007. Additionally, in November 2007, the creditors waived certain possible violations and/or events of default under the loan agreements with respect to the loans payable to Yukos Capital S.a.r.l. by OJSC Tomskneft VNK and OJSC Samaraneftegaz (see Note 22), effective through January 3, 2009. In December 2007, the Company obtained an extension to the waivers with respect to the condition related to OJSC Yuganskneftegaz's tax liabilities described above, effective through January 3, 2009. As discussed in Note 20, the first condition has been complied with as of June 30, 2008.

These conditions also apply to certain new borrowings obtained in the second quarter of 2008. As of June 30, 2008, the Company is in compliance with all restrictive financial and other covenants contained within its loan agreements.

The scheduled aggregate maturity of long-term debt outstanding as of June 30, 2008 is as follows:

	(Unaudited)
Until December 31, 2008	**1,715**
2009	**5,440**
2010	**4,483**
2011	**2,610**
2012	**1,924**
2013 and after	**771**
Total long-term debt	**16,943**

16. Shareholders' Equity

On June 5, 2008, the annual general shareholders' meeting approved dividends on the Company's common shares for 2007 in the amount of RUB 16,957 million or RUB 1.60 per share, which corresponds to US$ 712 million or US$ 0.07 per share at the CBR official exchange rate at the date of declaring the dividends. US$ 650 million of the above relate to outstanding shares.

17. Income and Other Tax Liabilities

Income and other tax liabilities comprise the following:

	June 30, 2008 (unaudited)	December 31, 2007
Mineral extraction tax	**1,564**	1,084
Value added tax	**420**	214
Excise tax	**175**	184
Personal income tax	**22**	24
Property tax	**53**	23
Income tax	**431**	651
Other	**153**	166
Total income and other tax liabilities	**2,818**	2,346

Tax liabilities above include respective current portion of restructured tax liabilities, including interest and penalties.

18. Export Customs Duty

Export customs duty comprises the following:

	Three months ended June 30, 2008 (unaudited)	Three months ended June 30, 2007 (unaudited)	Six months ended June 30, 2008 (unaudited)	Six months ended June 30, 2007 (unaudited)
Oil and gas sales				
Export customs duty	**4,665**	2,163	**8,115**	4,475
Petroleum products sales and processing fees				
Export customs duty	**1,142**	351	**2,170**	717
Total revenue related taxes	**5,807**	2,514	**10,285**	5,192

19. Taxes

Taxes other than income tax comprise the following:

	Three months ended June 30, 2008 (unaudited)	Three months ended June 30, 2007 (unaudited)	Six months ended June 30, 2008 (unaudited)	Six months ended June 30, 2007 (unaudited)
Mineral extraction tax	**4,007**	1,921	**7,083**	3,575
Excise tax	**298**	169	**611**	311
Property tax	**67**	45	**131**	83
Other	**163**	184	**300**	266
Total taxes other than income tax	**4,535**	2,319	**8,125**	4,235

Income tax expenses comprise the following:

	Three months ended June 30, 2008 (unaudited)	Three months ended June 30, 2007 (unaudited)	Six months ended June 30, 2008 (unaudited)	Six months ended June 30, 2007 (unaudited)
Current income tax expense	**1,704**	1,352	**2,808**	1,588
Deferred income tax expense / (benefit)	**(234)**	1,148	**(502)**	1,033
Total income tax expense	**1,470**	2,500	**2,306**	2,621

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

As of June 30, 2008, the Company analyzed its tax positions for uncertainties affecting recognition and measurement thereof. Following the analysis, the Company believes that it is more likely than not that the majority of all deductible tax positions stated in the income tax return would be sustained upon the examination by the tax authorities. This is supported by the results of the examinations of the income tax returns which have been conducted to date.

19. Taxes (continued)

The following table shows a reconciliation of the beginning and ending unrecognized tax benefits for the first half of 2008:

	Six months ended June 30, 2008 (unaudited)
Unrecognized tax benefits at January 1, 2008	**18**
Increase for tax positions of prior years	**31**
Unrecognized tax benefits at June 30, 2008	**49**

The total amount of unrecognized tax benefits that, if recognized, would affect the effective income tax rate is US$ 31 million and US$ 12 million as of June 30, 2008 and December 31, 2007, respectively.

20. Other Non-Current Liabilities

Other non-current liabilities comprise the following:

	June 30, 2008 (unaudited)	December 31, 2007
Restructured tax liabilities	**2,132**	2,146
Long-term lease obligations	**128**	147
Deferred income	**51**	115
Liabilities to municipalities under amicable agreements	**50**	48
Other	**31**	29
Total other non-current liabilities	**2,392**	2,485

In February and March 2008 the Company received signed resolutions of the Government of the Russian Federation and relevant regional and local authorities regarding the restructuring of the respective tax liabilities. Under the tax restructuring plan, the outstanding tax liabilities shall be repaid quarterly within five years starting from March 2008. The Company's payments amounted to RUB 1,162 million (US$ 49.3 million at the CBR official exchange rate as of the payment dates) and RUB 2,324 million (US$ 98.7 million at the CBR official exchange rate as of the payment dates) for the three and six months ended June 30, 2008, respectively.

The Company intends to undertake all possible actions to comply with the tax restructuring plan in full.

21. Related Party Transactions

In the normal course of business the Company enters into transactions with other enterprises which are directly or indirectly controlled by the Russian Government. Such enterprises are former business units of RAO UES, OJSC Gazprom, OJSC Russian Railways, OJSC Sberbank, Vnesheconombank, OJSC VTB Bank, OJSC Gazprombank, OJSC AK Transneft and federal agencies, including tax authorities.

Total amounts of transactions with companies controlled by the Russian Government for each of the reporting periods ending June 30, as well as related party balances as of June 30, 2008 and December 31, 2007 are provided in the tables below:

	Six months ended June 30, 2008 (unaudited)	**Six months ended June 30, 2007 (unaudited)**
Revenues		
Oil and gas sales	**89**	34
Sales of petroleum products and processing fees	**136**	81
Support services and other revenues	**19**	3
	244	118
Costs and expenses		
Pipeline tariffs and transportation costs	**1,715**	1,245
Other expenses	**171**	43
	1,886	1,288
Other operations		
Proceeds from short-term and long-term debt	**–**	3,868
Repayment of short-term and long-term debt	**1,123**	6,705
Deposits placed	**1,422**	–
Deposits paid	**93**	55
Interest expense	**122**	169
Interest income	**19**	4
Banking fees	**6**	3

	June 30, 2008 (unaudited)	**December 31, 2007**
Assets		
Cash and cash equivalents	**1,486**	139
Accounts receivable	**20**	106
Prepayments and other current assets	**240**	239
Short-term and long-term investments	**1,467**	90
	3,213	574
Liabilities		
Accounts payable	**135**	16
Short-term and long-term debt (including interest)	**4,193**	5,322
	4,328	5,338

21. Related Party Transactions (continued)

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, 2008 and December 31, 2007 are provided in the tables below:

	Six months ended June 30, 2008 (unaudited)	Six months ended June 30, 2007 (unaudited)
Revenues		
Oil and gas sales	**25**	13
Sales of petroleum products and processing fees	**138**	65
Support services and other revenues	**164**	40
	327	118
Costs and expenses		
Purchase of oil and petroleum products	**313**	446
Other expenses	**228**	47
	541	493
Other operations		
Acquisition of short-term and long-term investments	**12**	8
Proceeds from short-term and long-term debt	**253**	8
Repayment of short-term and long-term debt	**6**	7
Borrowings issued	**80**	5
Repayment of borrowings issued	**137**	1
Interest expense	**2**	3
Interest income	**4**	41
Dividends received	**27**	9

	June 30, 2008 (unaudited)	December 31, 2007
Assets		
Accounts receivable	**222**	201
Prepayments and other current assets	**3**	16
Short-term and long-term investments	**196**	297
	421	514
Liabilities		
Accounts payable	**247**	941
Short-term and long-term debt (including interest)	**487**	235
	734	1,176

22. Commitments and Contingencies

Russian Business Environment

While 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. 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, it 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 income tax positions taken by the Company are sustainable and will not have any significant negative impact on the Company's financial statements. 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 positions are sustainable and will not have any significant negative impact on the Company's consolidated financial position or results of operations.

The Company is currently challenging a number of decisions made by the tax authorities to accrue additional VAT and decline reimbursement of VAT paid to suppliers in the amount of RUB 9,067 million (US$ 387 million at the CBR official exchange rate as of June 30, 2008). The claims of RUB 5,331 million (US$ 227 million at the CBR official exchange rate as of June 30, 2008) have been upheld by various courts, however they are subject to further appeal by the tax authorities. The claims of RUB 839 million (US$ 36 million at the CBR official exchange rate as of June 30, 2008) have not been upheld by the courts, however the Company has the right and intends to appeal. The remaining claims of RUB 2,897 million (US$ 124 million at the CBR official exchange rate as of June 30, 2008) are still being heard in the courts.

22. Commitments and Contingencies (continued)

Taxation (continued)

The Company's management believes that the outcome of these tax cases will not have any significant impact on the Company's consolidated financial position or results of operations. 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 dates 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, 2008, the Company's subsidiaries which were acquired at the auctions, described in Note 3, have various disputes with tax authorities for the total amount of US$ 29 million, US$ 16 million of which were recorded within income and other tax liabilities.

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.

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 condensed consolidated financial statements and that may have a material adverse effect on the consolidated operating results or financial position of the Company.

Social Commitments

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

The Company incurred US$ 24 million and US$ 27 million in social infrastructure and similar expenses for the first six months of 2008 and 2007, respectively. These expenses are presented as other expenses in the consolidated statement of income and comprehensive income.

22. Commitments and Contingencies (continued)

Pension Plans

The Company and its subsidiaries make payments to the State Pension Fund of the Russian Federation. These payments are calculated by the employer as percentage from the salary expense and are expensed as accrued.

The Company contributes to corporate pension fund to finance non-state pensions of its employees. These payments are made based on the defined contribution plan. For the first six months of 2008 and 2007, the Company made contributions to the non-state corporate pension fund amounting to US$ 50 million and US$ 31 million, respectively.

Insurance

The Company insures its assets with OJSC Sogaz, a related party.

As of June 30, 2008 and December 31, 2007, the amount of coverage of assets under such insurance amounted to US$ 15,806 million and US$ 11,706 million, respectively.

Guarantees and Indemnity

As of June 30, 2008, 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 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 sufficient to cover all of the Company's existing and potential obligations payable during the period of validity of such letter of credit.

In January 2007, RN-Yuganskneftegaz LLC signed a guarantee agreement in respect of all the obligations of RN-Energo LLC, the Company's wholly owned subsidiary, under the contract for electricity supply with OJSC Tyumenskaya Energosbytovaya Companiya for the period through January 31, 2010, in the amount of US$ 64 million.

During 2007 and 2008, the Company successfully defended its position in various courts as to the invalidity of guarantees provided by OJSC Yuganskneftegaz, OJSC Samaraneftegaz and OJSC Tomskneft VNK related to the Yukos Oil Company indebtedness of US$ 1,600 million to Moravel Investments Limited. Along with the fact that all or most of the relevant indebtedness was collected by the principal creditor, it enabled the Company to conclude that the probability of any unfavorable outcome in relation to the matter is now remote.

22. Commitments and Contingencies (continued)

Litigation, Claims and Assessments

Yukos Capital S.a.r.l., a former subsidiary of Yukos Oil Company, initiated arbitral proceedings against the Company and OJSC Samaraneftegas, the Company's subsidiary, in various courts alleging default under six ruble-denominated loans. International Court of Commercial Arbitration ("ICCA") at the Russian Federation Chamber of Commerce and Industry and International Court of Arbitration at the International Chamber of Commerce ("ICC") ruled in favor of Yukos Capital S.a.r.l. to award amounts under the loan agreements.

ICCA rulings were cancelled by the Russian court. The Amsterdam Court ruled against enforcement of the said ICCA decisions in the Netherlands (this ruling is being currently appealed by Yukos Capital S.a.r.l.). Additionally, in 2007 claims were filed to declare the loan agreements null and void. The court hearings for these claims are planned for the second half of 2008. The Company believes that payments in excess of US$ 788 million (see Note 15) are possible, but their amount can not be reasonably estimated.

The Company and its subsidiary are plaintiffs in arbitral proceedings against OJSC Yakutgazprom, OJSC Sakhaneftegaz, OJSC Lenaneftegaz for the loans and receivables repayment in the amount of RUB 2,508 million (US$ 107 million at the CBR official exchange rate as of June 30, 2008). The respective accounts receivable in the amount of US$ 62 million (net of allowance in the amount of US$ 45 million) are recorded as long-term receivables in the consolidated balance sheet (see Note 13). Next hearings on the proceeding for the loans repayment by OJSC Yakutgazprom to the Company are scheduled for August 28, 2008.

The Company is also a plaintiff in arbitral proceedings against OJSC TRUST Investment Bank for the repayment under a deposit agreement, which is recorded in the consolidated balance sheet in the amount of RUB 1,802 million (US$ 77 million at the CBR official exchange rate as of June 30, 2008). On June 30, 2008, the court of first instance upheld the full amount of claims filed by OJSC Oil Company Rosneft against OJSC TRUST Investment Bank however the court decision was appealed by the defendant. The appeal hearings are not scheduled yet. This amount is recorded in the consolidated balance sheet as acquired receivables (see Note 7). The Company believes that the maximum amount of possible loss is limited by the amounts currently recorded in the consolidated balance sheet.

The Company 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.

Licence 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 for the term through 2010 with China National United Oil Corporation for export 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.

23. 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. Corporate assets are allocated between exploration and production and refining, marketing and distribution in proportion to sales of these segments. Drilling services, construction services, banking and finance services, and other activities are combined in All other. 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 condensed 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.

Operating segments for three months ended June 30, 2008:

	Exploration and production (unaudited)	**Refinery, marketing and distribution (unaudited)**	**All other (unaudited)**	***Total elimination* (unaudited)**	**Consolidated (unaudited)**
Revenues from external customers	**634**	**20,200**	**300**	**–**	**21,134**
Intersegmental revenues	**2,822**	**763**	**1,178**	**(4,763)**	**–**
Total revenues	**3,456**	**20,963**	**1,478**	**(4,763)**	**21,134**
Operating expenses and cost of purchased oil and petroleum products	**658**	**1,016**	**184**	**–**	**1,858**
Depreciation, amortization and depletion of reserves	**834**	**202**	**40**	**–**	**1,076**
Operating income	**1,722**	**8,335**	**651**	**(4,763)**	**5,945**
Total other expenses, net					**(131)**
Income before tax					**5,814**

Operating segments for three months ended June 30, 2007:

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

23. Segment Information (continued)

Operating segments for six months ended June 30, 2008:

	Exploration and production (unaudited)	**Refinery, marketing and distribution (unaudited)**	**All other (unaudited)**	***Total elimination* (unaudited)**	**Consolidated (unaudited)**
Revenues from external customers	**1,076**	**35,919**	**507**	**–**	**37,502**
Intersegmental revenues	**5,372**	**1,536**	**2,424**	**(9,332)**	**–**
Total revenues	**6,448**	**37,455**	**2,931**	**(9,332)**	**37,502**
Operating expenses and cost of purchased oil and petroleum products	**1,228**	**2,077**	**342**	**–**	**3,647**
Depreciation, amortization and depletion of reserves	**1,606**	**356**	**68**	**–**	**2,030**
Operating income	**3,055**	**14,468**	**1,458**	**(9,332)**	**9,649**
Total other expenses, net					**(429)**
Income before tax					**9,220**
Total assets as of June 30, 2008	**44,593**	**29,075**	**8,578**		**82,246**

Operating segments for six months ended June 30, 2007:

	Exploration and production (unaudited)	**Refinery, marketing and distribution (unaudited)**	**All other (unaudited)**	***Total elimination* (unaudited)**	**Consolidated (unaudited)**
Revenues from external customers	782	18,098	125	–	19,005
Intersegmental revenues	3,840	1,018	708	(5,566)	–
Total revenues	4,622	19,116	833	(5,566)	19,005
Operating expenses and cost of purchased oil and petroleum products	1,166	928	60	–	2,154
Depreciation, amortization and depletion of reserves	832	674	17	–	1,523
Operating income	2,191	6,100	709	(5,566)	3,434
Total other income, net					7,203
Income before tax					10,637
Total assets as of December 31, 2007	41,888	25,445	7,472	–	74,805

23. 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, 2008 (unaudited)	Three months ended June 30, 2007 (unaudited)	Six months ended June 30, 2008 (unaudited)	Six months ended June 30, 2007 (unaudited)
Oil and gas sales				
Export sales of crude oil – Europe and other directions	**8,424**	4,819	**14,434**	8,750
Export sales of crude oil – Asia	**2,489**	1,455	**4,346**	2,684
Export sales of crude oil – CIS	**707**	468	**1,338**	830
Domestic sales of crude oil	**51**	391	**127**	429
Domestic sales of gas	**96**	75	**213**	154
Total oil and gas sales	**11,767**	7,208	**20,458**	12,847
Sales of petroleum products				
Export sales of petroleum products – Europe	**2,841**	1,042	**5,229**	1,842
Export sales of petroleum products – Asia	**2,012**	624	**3,598**	1,139
Export sales of petroleum products – CIS	**186**	62	**376**	86
Domestic sales of petroleum products and processing fees	**3,813**	1,615	**6,882**	2,771
Sale of petrochemical products	**142**	34	**274**	34
Total sales of petroleum products	**8,994**	3,377	**16,359**	5,872

24. Fair Value of Financial Instruments and Risk Management

Effective January 1, 2008, the Company adopted SFAS 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs when measuring fair value.

SFAS 157 defines three levels of inputs that may be used to measure fair value:

Level 1– Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to assess at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2– Observable inputs other than Level 1 prices such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or model-derived valuations or other inputs that are observable or can be corroborated by observable market data.

Level 3– Unobservable inputs for the asset or liability. These inputs reflect the Company's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

24. Fair Value of Financial Instruments and Risk Management

Assets and liabilities of the Company that are measured at fair value on a recurring basis in accordance with the fair value hierarchy are presented in the table below.

	Fair value measurement as of June 30, 2008			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Current assets				
Trading securities	191	–	–	191
Available-for-sale investments	29	–	–	29
Non-current assets				
Available-for-sale investments	33	–	–	33
Total assets measured at fair value	**253**	**–**	**–**	**253**
Liabilities:				
Derivative financial instruments	–	(39)	–	(39)
Total liabilities measured at fair value	**–**	**(39)**	**–**	**(39)**

The Company, in connection with its current activities, is exposed to various financial risks, such as foreign currency risks, commodity price risk, 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 denominated 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 and increased interest expense accrued on loans received by the Company. Hedge accounting pursuant to SFAS 133 is not applied to these instruments.

In December 2007, the Company entered into an interest rate swap contract with a notional amount of US$ 3 billion. Under the terms of the contract, a floating LIBOR rate may be converted into a certain fixed rate. The other party has a call option to terminate the deal. The fair value of the interest swap contract was recorded in the consolidated balance sheets as of June 30, 2008 and December 31, 2007 as other current liabilities in the amount of US$ 39.1 million and US$ 13.5 million, respectively. The change in fair value was recorded in the consolidated statement of income and comprehensive income for the six months ended June 30, 2008 as a component of interest expense in the amount of US$ 25.6 million.

The fair value of the interest rate swap contract is based on estimated amounts that the Company would pay or receive upon termination of the contract as of June 30, 2008.

25. Subsequent Events

In July 2008, Rosneft early repaid loans received from banks under state control in the amount of US$ 1.0 billion. The Group also early repaid a portion of the last tranche, in the amount of US$ 4.2 billion, of the bridge financing (see Note 15) which was received from the consortium of international banks in 2007.

In July 2008, Rosneft received a syndicated 5-year loan in the amount of US$ 2.85 billion bearing an interest rate of LIBOR plus 1.25%. This loan is secured by oil export contracts.