ROSNEFT
OIL COMPANY
OPEN JOINT STOCK COMPANY

OJSC Rosneft Oil Company

Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2007 and 2006

OJSC Rosneft Oil Company

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OJSC Rosneft Oil Company

Consolidated Balance Sheets

(in millions of US dollars, except share amounts)

	Notes	September 30, 2007 (unaudited)	December 31, 2006
ASSETS			
Current assets:			
Cash and cash equivalents	5	**$ 955**	$ 505
Restricted cash		**116**	29
Short-term investments		**452**	460
Accounts receivable, net of allowance of $28 and $65, respectively	6	**8,792**	4,839
Inventories		**1,845**	905
Current deferred tax assets		**321**	1,135
Prepayments and other current assets		**1,268**	1,589
Assets held for sale	7	**5,070**	–
Total current assets		**18,819**	9,462
Non-current assets:			
Long-term investments		**1,305**	568
Long-term bank loans granted, net of allowance of $13 and $6, respectively		**267**	110
Property, plant and equipment	8	**48,788**	35,945
Goodwill	3, 7	**4,524**	161
Non-current deferred tax asset		**127**	110
Prepayments and other non-current assets		**958**	434
Total non-current assets		**55,969**	37,328
Total assets		**$ 74,788**	$ 46,790
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	9	**$ 6,812**	$ 1,998
Short-term debt	10	**19,297**	6,427
Income and other tax liabilities		**3,669**	2,472
Deferred tax liabilities		**174**	17
Other current liabilities		**73**	20
Liabilities related to assets held for sale	7	**2,837**	–
Total current liabilities		**32,862**	10,934
Asset retirement obligations		**1,089**	748
Long-term debt	10	**9,490**	7,402
Deferred tax liabilities		**7,043**	5,446
Other non-current liabilities		**297**	160
Total non-current liabilities		**17,919**	13,756
Minority interest		**263**	225
Shareholders' equity:	11		
Common stock par value 0.01 RUB (shares outstanding: 9,598 million and 10,598 million as of September 30, 2007 and December 31, 2006, respectively)		**20**	20
Treasury shares (at acquisition cost: 1,000 million and nil shares as of September 30, 2007 and December 31, 2006, respectively)		**(7,521)**	–
Additional paid-in capital		**11,330**	11,352
Retained earnings		**19,915**	10,503
Total shareholders' equity		**23,744**	21,875
Total liabilities and shareholders' equity		**$ 74,788**	$ 46,790

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 September 30, 2007 (unaudited)	Three months ended September 30, 2006 as restated (unaudited)	Nine months ended September 30, 2007 (unaudited)	Nine months ended September 30, 2006 as restated (unaudited)
Revenues					
Oil and gas sales	16	**$ 7,562**	$ 6,382	**$ 20,409**	$ 17,535
Sales of petroleum products and processing fees	16	**5,865**	2,443	**11,737**	7,069
Support services and other revenues		**315**	126	**601**	276
Total		**13,742**	8,951	**32,747**	24,880
Costs and expenses					
Production and operating expenses		**1,329**	500	**2,605**	1,487
Cost of purchased oil, gas, petroleum products and refining costs		**326**	253	**1,203**	835
General and administrative expenses		**383**	228	**843**	548
Pipeline tariffs and transportation costs		**1,166**	899	**3,069**	2,359
Exploration expenses		**23**	38	**82**	116
Depreciation, depletion and amortization		**901**	444	**2,424**	1,236
Accretion expense		**19**	9	**42**	25
Taxes other than income tax		**2,987**	1,885	**7,222**	5,391
Export customs duty	12	**3,505**	2,947	**8,697**	7,740
Total		**10,639**	7,203	**26,187**	19,737
Operating income		**3,103**	1,748	**6,560**	5,143
Other income/(expenses)					
Interest income		**77**	42	**155**	102
Interest expense		**(422)**	(191)	**(1,067)**	(572)
Loss on disposal of property, plant and equipment		**(49)**	(8)	**(83)**	(25)
Loss on disposal of investments		**(13)**	(1)	**(1)**	(6)
Equity share in affiliates' profits		**6**	13	**5**	32
Dividends and income from joint ventures		**3**	1	**9**	2
Gain from Yukos Oil Company bankruptcy proceedings	6	**–**	–	**7,920**	–
Other expenses, net		**(97)**	(46)	**(215)**	(69)
Foreign exchange losses		**(132)**	(39)	**(163)**	(316)
Total other income/(expenses)		**(627)**	(229)	**6,560**	(852)
Income before income tax and minority interest		**2,476**	1,519	**13,120**	4,291
Income tax expense	**13**	**(574)**	(445)	**(3,195)**	(1,264)
Income before minority interest		**1,902**	1,074	**9,925**	3,027
Minority interest in subsidiaries' earnings, net of tax		**(12)**	(23)	**(15)**	(97)
Net income		**$ 1,890**	$ 1,051	**$ 9,910**	$ 2,930
Other comprehensive loss	2	**(7)**	–	**–**	–
Comprehensive income		**$ 1,883**	$ 1,051	**$ 9,910**	$ 2,930
Net earnings per share (in US$) – basic and diluted		$ 0.20	$ 0.11	$ 0.99	$ 0.32
Weighted average number of shares outstanding (millions)		9,598	9,311	9,990	9,165

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	Nine months ended September 30, 2007 (unaudited)	Nine months ended September 30, 2006 as restated (unaudited)
Operating activities			
Net income		**$ 9,910**	$ 2,930
Adjustments to reconcile net income to net cash provided by operating activities:			
Effect of foreign exchange		**88**	245
Depreciation, depletion and amortization		**2,424**	1,236
Dry well expenses		**57**	20
Loss on disposal of property, plant and equipment		**83**	25
Deferred income tax		**894**	(89)
Accretion expense		**42**	25
Equity share in affiliates' profits		**(5)**	(32)
Loss on disposal of investments		**1**	–
Acquisition of trading securities		**(364)**	(8)
Proceeds from sale of trading securities		**248**	8
(Decrease)/increase in allowance for doubtful accounts and bank loans granted		**(30)**	3
Minority interests in subsidiaries' earnings		**15**	97
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		**(2,802)**	(982)
Increase in inventories		**(233)**	(204)
Increase in restricted cash		**(87)**	(5)
Decrease in prepayments and other current assets		**16**	65
Increase in other non-current assets		**(192)**	(137)
Increase in long-term bank loans granted		**(164)**	(35)
Increase in interest payable		**110**	107
Increase in accounts payable and accrued liabilities		**896**	208
Increase in income and other tax liabilities		**777**	25
Increase in other current and non-current liabilities		**8**	58
Net cash provided by operating activities		**$ 13,088**	$ 3,560

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	Nine months ended September 30, 2007 (unaudited)	Nine months ended September 30, 2006 as restated (unaudited)
Investment activities			
Capital expenditures		**$ (4,538)**	$ (2,131)
Acquisition of licenses		**(52)**	(875)
Repayment of Sakhalin-1 carried costs		**–**	(1,339)
Proceeds from disposals of property, plant and equipment		**34**	21
Acquisition of short-term investments		**(64)**	(696)
Proceeds from sale of short-term investments		**246**	442
Acquisition of entities and additional shares in subsidiaries, net of cash acquired	3	**(17,034)**	(181)
Proceeds from sale of long-term investments		**37**	26
Prepayment for disposal of equity interests	9	**3,400**	–
Settlement/(acquisition) of debt receivable	6	**483**	(463)
Acquisition of long-term investments		**(193)**	(59)
Net cash used in investing activities		**(17,681)**	(5,255)
Financing activities			
Proceeds from short-term debt		**14,249**	212
Repayment of short-term debt		**(2,600)**	(603)
Proceeds from long-term debt		**3,396**	2,266
Repayment of long-term debt		**(1,997)**	(2,068)
Proceeds from share issue, net of commissions		**–**	2,124
Dividends paid and other distributions to shareholders		**(488)**	(424)
Cash paid for acquisition of treasury shares	11	**(7,521)**	–
Dividends paid to minority shareholders in subsidiaries		**(15)**	(17)
Net cash provided by financing activities		**5,024**	1,490
Increase/(decrease) in cash and cash equivalents		**431**	(205)
Cash and cash equivalents at beginning of period		**505**	1,173
Effect of foreign exchange on cash and cash equivalents		**19**	23
Cash and cash equivalents at end of period		**$ 955**	$ 991
Supplementary disclosures of cash flow information			
Cash paid for interest (net of amount capitalized)		**$ 822**	$ 429
Cash paid for income taxes		**$ 2,692**	$ 1,575

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

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 ("APB") Opinion 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 certain 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 nine months ended September 30, 2007 may not be indicative of the results of operations for the full year ended December 31, 2007. These interim condensed consolidated financial statements contain information updated through January 16, 2008.

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.

2. Significant Accounting Policies (continued)

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

Revenues associated with the sales of crude oil purchased from third parties and flowed through Caspian Pipeline Consortium system were presented on a gross basis under the provisions of the Emerging Issues Task Force ("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 nine months ended September 30, 2006 amounted to a reduction in oil and gas sales by US$ 602 million and a reduction of cost of purchased oil, gas, petroleum products and refining costs in the consolidated statement of income by US$ 602 million with no effect on net income. The effect of this restatement on the three months ended September 30, 2006 amounted to a reduction in oil and gas sales by US$ 198 million and a reduction of cost of purchased oil, gas, petroleum products and refining costs in the consolidated statement of income by US$ 198 million with no effect on net income.

Certain items in consolidated statements of income and comprehensive income and cash flows for the nine and three months ended September 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 nine and three months ended September 30, 2006 as a result of the restatement and reclassifications discussed above:

	Nine months ended September 30, 2006 as previously reported (unaudited)	Adjustments and reclassifications (unaudited)	Nine months ended September 30, 2006 as restated (unaudited)
Oil and gas sales	$ 18,137	$ (602)	$ 17,535
Sales of petroleum products and processing fees	7,069	–	7,069
Support services and other revenues	315	(39)	276
Total	25,521	(641)	24,880
Production and operating expenses	1,481	6	1,487
Cost of purchased oil, gas, petroleum products and refining costs	1,561	(726)	835
General and administrative expenses	557	(9)	548
Pipeline tariffs and transportation costs	2,359	–	2,359
Exploration expenses	144	(28)	116
Depreciation, depletion and amortization	1,236	–	1,236
Accretion expense	25	–	25
Taxes other than income tax	5,284	107	5,391
Export customs duty	7,740	–	7,740
Total	20,387	(650)	19,737
Operating income	5,134	9	5,143
Total other expenses	(843)	(9)	(852)
Income before income tax	$ 4,291	$ –	$ 4,291

2. Significant Accounting Policies (continued)

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

	Three months ended September 30, 2006 as previously reported (unaudited)	Adjustments and reclassifications (unaudited)	Three months ended September 30, 2006 as restated (unaudited)
Oil and gas sales	$ 6,580	$ (198)	$ 6,382
Sales of petroleum products and processing fees	2,443	–	2,443
Support services and other revenues	142	(16)	126
Total	9,165	(214)	8,951
Production and operating expenses	541	(41)	500
Cost of purchased oil, gas, petroleum products and refining costs	459	(206)	253
General and administrative expenses	209	19	228
Pipeline tariffs and transportation costs	902	(3)	899
Exploration expenses	46	(8)	38
Depreciation, depletion and amortization	444	–	444
Accretion expense	9	–	9
Taxes other than income tax	1,844	41	1,885
Export customs duty	2,947	–	2,947
Total	7,401	(198)	7,203
Operating income	1,764	(16)	1,748
Total other expenses	(245)	16	(229)
	–	–	–
Income before income tax	$ 1,519	$ –	$ 1,519

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; 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.

2. Significant Accounting Policies (continued)

Foreign Currency Translation (continued)

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

As of September 30, 2007, December 31, 2006, and September 30, 2006, the Central Bank of the Russian Federation ("CBR") official rates of exchange were 24.95 rubles, 26.33 rubles, and 26.78 rubles per US dollar, respectively. Average rates of exchange for the nine months ended September 30, 2007 and 2006 were calculated as 25.89 rubles and 27.39 rubles per US dollar, respectively. As of January 16, 2008, the official rate of exchange was 24.29 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.

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 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 interim condensed 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.

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 Statement of Financial Accounting Standard ("SFAS") 142, *Goodwill and Other Intangible Assets*, goodwill and intangible assets with indefinite useful lives are not amortized. Instead, they are tested for impairment at least annually.

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.

Assets Held For Sale

The Company accounts its assets as held for sale in accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Asset.* A long-lived asset (disposal group) to be sold is classified as held for sale in the period in which all of the held-for-sale criteria are met, and measured at the lower of its carrying amount or fair value less cost to sell. A long-lived asset is not depreciated (amortized) while it is classified as held for sale.

Income Tax Expense

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 of 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 consolidated balance sheets 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 SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, are recognized immediately in the consolidated statements of income and comprehensive income.

2. Significant Accounting Policies (continued)

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 interim condensed consolidated financial statements.

Other comprehensive loss in the three months ended September 30, 2007 represents the recycling of previously unrealized gain on available-for-sale investments following their disposal in the third quarter of 2007. As of September 30, 2007 and 2006 the Company did not have accumulated other comprehensive income. Comprehensive income for the first nine months of 2007 and 2006 equals the Company's net income for these periods.

Accounting for Uncertainties in Income Taxes

On January 1, 2007 the Company adopted Financial Accounting Standards Board ("FASB") Interpretation ("FIN") 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). Income tax additionally accrued under the provisions of FIN 48 (if any) together with corresponding interest and penalties are recognized in the consolidated statement of income and comprehensive income as income tax expense. Accrued liabilities for interest and penalties for income tax totaled US$ 211 million as of January 1, 2007 and US$ 290 million as of September 30, 2007.

As of January 1, 2007 the Company analyzed its tax positions for uncertainties affecting their recognition and measurement. The adoption of FIN 48 had an insignificant impact on the interim condensed consolidated financial statements of the Company. The Company had unrecognized tax benefits in the amount of nil and ruble (‘RUB’) 890.1 million as of September 30, 2007 and January 1, 2007, respectively (US$ 33.8 million as of January 1, 2007). The total amount of unrecognized tax benefits that, if recognized, would affect the effective income tax rate is nil and RUB 890.1 million as of September 30, 2007 and January 1, 2007, respectively (US$ 33.8 million as of January 1, 2007). The previously unrecognized amount of RUB 890.1 million was recognized as tax benefit in the Company’s tax returns for the nine months ended September 30, 2007.

In May 2007, the FASB issued Staff Position ("FSP") FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48,* an amendment of FIN 48, 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 FIN 48 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 FSP had no impact on the Company’s consolidated financial statements.

As further discussed in the Note 15, the tax authorities have been examining the Company’s income tax returns for the years 2004-2005 and for the nine months through September 30, 2006. There are no other tax years or periods prior to 2004 that remain subject to examination.

2. Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In May 2007, the FASB issued FSP FIN 39-1, *Amendment of FASB Interpretation No. 39* ("FSP FIN 39-1"), to amend paragraph 10 of FIN 39, *Offsetting of Amounts Related to Certain Contracts* ("FIN 39"), 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. FSP FIN 39-1 applies to fiscal years beginning after November 15, 2007, with early application permitted. The Company does not expect FSP FIN 39-1 to have a material impact on the Company's consolidated financial statements.

In December 2007, FASB issued SFAS 141 (Revised), *Business Combinations* ("SFAS 141(R)"). This Statement retains the fundamental requirements in SFAS 141 that acquisition method of accounting be used for all business combinations and for an acquirer to be identified for each business combination, but expands the scope of acquisition accounting to all transactions and circumstances under which control of business is obtained. SFAS 141(R) shall be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier application is prohibited. The Company will apply this standard for its consolidated financial statements issued for fiscal periods beginning January 1, 2009. This statement will have no effect on the Company's consolidated financial statements until the Company enters into a business combination after January 1, 2009.

In December 2007, FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements* ("SFAS 160"). This Statement amends Accounting Research Bulletin ("ARB") 51, *Consolidated Financial Statements*, to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 shall be effective for fiscal periods beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company will apply this standard for its consolidated financial statements issued for fiscal year beginning January 1, 2009. The Company has not yet identified the impact this standard will have on the Company's consolidated financial position and results of operations.

3. Significant Acquisitions

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.

On April 18, 2007, Neft-Aktiv LLC won an auction for the sale of interests in several service companies located in Western Siberia regions of the Russian Federation 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 oil production efficiency 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.

3. Significant Acquisitions (continued)

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 region of the Russian Federation. 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
		%
OJSC Tomskneft VNK	Oil and gas development and production	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
OJSC East-Siberian Oil and Gas Company	Oil and gas development and production	70.78
OJSC Tomskaya Raspredelitelnaya 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$ 4.94 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 the Russian Federation. 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:

Name	Nature of business	Equity interest acquired
		%
OJSC Samaraneftegaz	Oil and gas development and production	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 Samaranefteprodukt	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 value of assets acquired and liabilities assumed in the amount of US$ 4.77 billion.

3. Significant Acquisitions (continued)

On May 16, 2007, Neft-Aktiv LLC won an auction for the sale of interests in several small service and information technology 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 allocated to the fair value of assets acquired and liabilities assumed in the amount of US$ 70 million.

On June 15, 2007, Neft-Aktiv LLC acquired from Unitex LLC 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 the Russian Federation. The Company acquired these assets to develop its own oil product distribution network following the growth of oil refining capacity as well as to expand its presence in the European part of the Russian Federation oil products market. The acquisition price amounted to RUB 16.32 billion (US$ 633 million 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
		%
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 Mytischi Fuel Company	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$ 475 million.

At the end of June 2007 Rosneft and Neft-Aktiv LLC acquired from Prana LLC ("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. 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 by the 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 87.58 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$ 1.80 billion.

3. Significant Acquisitions (continued)

In early July 2007 Neft-Aktiv LLC acquired shares and interests in oil production and marketing companies located in the South region of the Russian Federation. Pursuant to the decision of the Yukos Oil Company Creditors' Committee dated May 16, 2007, Neft-Aktiv LLC, being a runner-up in the auction of May 3, 2007 was granted the right to enter into the agreement for sale and purchase of assets earlier sold at that auction. In June 2007 Neft-Aktiv LLC signed the sale and purchase agreement and the transaction was completed in early July 2007. The Company acquired these assets to develop its retail network following the growth of the refining capacity as well as to expand its presence in the European part of the Russian Federation. The acquisition price amounted to RUB 4.9 billion (US$ 190 million 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
		%
OJSC Caspian Oil Company	Oil and gas development and production	49.89
Val Shatskogo LLC	Oil and gas development and production	100.00
OJSC Stavropolnefteproduct	Marketing and distribution	100.00
U-Kuban LLC	Marketing and distribution	51.00
OJSC Kuban Generating Company	Electricity generation	26.26
OJSC Kuban Energosbytovaya Company	Electricity distribution	26.26
OJSC Kubanskiye Magistralnye Seti	Electricity transmission and distribution	26.26
OJSC Kubanenergo	Electricity transmission and distribution	26.26

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$ 190 million.

On August 8, 2007 the Company won an auction for the sale of shares and interests in eight marketing and service companies together with certain other assets which primarily included property, plant and equipment located in the West Siberia region of the Russian Federation and related to the exploration, production and transportation of crude oil. The acquisition price of shares and interests in companies amounted to RUB 9.05 billion (US$ 360 million at the CBR official exchange rate as of the dates of acquisitions), and the acquisition price of property, plant and equipment amounted to RUB 9.53 billion (US$ 370 million at the CBR official exchange rate as of the dates of acquisitions). The principle acquisition is a 100% interest in CJSC YUKOS-Transservice located in the Samara region of the Russian Federation. CJSC YUKOS-Transservice provides petroleum products transportation services.

As a result of the preliminary allocation the acquisition price attributable to the interests in eight marketing and service companies was allocated to the fair value of assets acquired and liabilities assumed in the amount of US$ 360 million.

3. Significant Acquisitions (continued)

Over the course of the acquisitions in the second and third quarters of 2007, the Company acquired more than 140 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, information technology, personnel, and know-how. These acquisitions amounted to $14.5 billion, net of cash received for the intended sale of 50% interest in OJSC Tosmskneft VNK and certain other assets (see Note 7). 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 creating a platform to achieve better downstream margins and additional flexibility in netback options. Through such increased margins and incremental flexibility, management is 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 purchase price allocation, total goodwill in the amount of US$ 5.27 billion is attributed primarily to the refinery, marketing and distribution segment (US$ 3.72 billion), as well as to the exploration and production segment (US$ 1.55 billion) which are both expected to benefit from the synergies of the acquisitions. Included in the latter is US$ 904 million presented within assets held for sale (see Note 7). 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 dates are different for every asset and depends 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 preliminary purchase price allocation to the fair value of assets acquired and liabilities assumed:

	Initial allocation – 2nd quarter 2007 acquisitions	Purchase price allocation adjustments	3rd quarter 2007 acquisitions	Current allocation
ASSETS				
Current assets:				
Cash and cash equivalents	$ 1,129	$ (35)	$ 103	$ 1,197
Short-term investments	638	(12)	7	633
Accounts receivable	2,664	624	110	3,398
Inventories	814	1	34	849
Prepayments and other current assets	495	–	48	543
Total current assets	**5,740**	**578**	**302**	**6,620**
Long-term investments	152	(1)	10	161
Property, plant and equipment	12,878	289	658	13,825
Deferred tax assets	100	6	8	114
Other non-current assets	198	–	6	204
Total non-current assets	**13,328**	**294**	**682**	**14,304**
Total assets	**$ 19,068**	**$ 872**	**$ 984**	**$ 20,924**

3. Significant Acquisitions (continued)

	Initial allocation – 2nd quarter 2007 acquisitions	Purchase price allocation adjustments	3rd quarter 2007 acquisitions	Current allocation
LIABILITIES				
Accounts payable	$ 1,100	$ 41	$ 141	$ 1,282
Short-term loans and borrowings and current portion long-term debt	2,414	(35)	133	2,512
Income and other tax liabilities	518	120	11	649
Deferred tax liability	26	254	–	280
Other current liabilities	331	(16)	29	344
Total current liabilities	**4,389**	**364**	**314**	**5,067**
Asset retirement obligations	135	362	–	497
Long-term debt	958	–	20	978
Deferred tax liability	1,944	(12)	3	1,935
Other non-current liabilities	47	–	105	152
Total non-current liabilities	**3,084**	**350**	**128**	**3,562**
Total liabilities	**$ 7,473**	**$ 714**	**$ 442**	**$ 8,629**
Total net assets acquired	**$ 11,595**	**$ 158**	**$ 542**	**$ 12,295**
Minority interest	**$ (11)**	**$ –**	**$ –**	**$ (11)**
Purchase price	**$ 17,028**	**$ (19)**	**$ 542**	**$ 17,551**
Goodwill	**$ 5,444**	**$ (177)**	**$ –**	**$ 5,267**

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$ 249 million. These contingent liabilities primarily arose from lawsuits against the newly acquired companies. Tax related preacquisition contingencies in the amount of US$ 168 million are included within income and other tax liabilities. The Company also identified US$ 123 million of potentially impaired accounts receivable and prepayments for which the Company arranged to obtain additional information in order to assess their recoverability.

The initial purchase price allocation was adjusted due to the revision made in third quarter of 2007 of fair values of the assets acquired and liabilities assumed which primarily include recognition of additional accounts receivable (see Note 18), additional tax and other liabilities and additional asset retirement obligations identified.

Furthermore, the Company restated the presentation of initial allocation to properly reflect consolidated subsidiaries of OJSC Tomskneft VNK and Trade House Yukos-M LLC.

This purchase price allocation and the allocation of goodwill among reporting units is still preliminary and the Company expects to finalize the allocation before issuing the December 31, 2007 financial statements.

Pro forma financial information assuming that the acquisition of assets occurred as of the beginning of 2006, which is required by SFAS 141 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

Asset Acquisitions

On July 12, 2007 the Company won an auction for the sale of certain assets which primarily include property, plant and equipment, as well as licenses related to the exploration and production of crude oil in Western and Eastern Siberia and in the Samara regions of the Russian Federation. The acquisition price amounted to RUB 6.9 billion (US$ 270 million at the CBR official exchange rate as of the dates of acquisitions).

On August 15, 2007 the Company won an auction for the sale of the rights to claim the accounts receivable of Yukos Oil Company. The acquisition price amounted to RUB 11.56 billion (US$ 445 million at the CBR official exchange rate as of the date of acquisition). The majority of the acquired receivables pertains to amounts due from former Yukos subsidiaries acquired by the Company at the previous auctions for the sale of the assets of Yukos Oil Company and totals RUB 7.93 billion (310 million at the CBR official exchange rate as of the date of acquisition) (see Note 6).

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. Immediately after this acquisition, the Company's ownership interest became 85.61% of OJSC Ohinskaya TETS 's total equity. Further in April 2007, the Company acquired 9,876,869 of additional ordinary shares of OJSC Ohinskaya TETS, 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 Ohinskaya TETS is a local Sakhalin producer and seller of electrical power and heat. One of the main consumers of OJSC Ohinskaya TETS's output 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.

OJSC Verkhnechonskneftegaz

In January 2007, the Company bought 339,582 additional ordinary shares 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

On April 3, 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 issued by the Moscow Arbitration Court. CJSC Yukos-Mamontovo is the owner of service facilities leased by RN-Yuganskneftegaz and used in crude oil production. The receipt of this interest was accounted for as a revision to the original purchase accounting of OJSC Yuganskneftegaz with no material effect on the Company's interim condensed consolidated financial statements.

4. Other Acquisitions (continued)

CJSC Vlakra

In June 2007, the Company acquired 5,860 ordinary shares of OJSC Vlakra which accounted for 50% of the total number of ordinary shares issued by the 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 for in cash. The acquisition price was fully allocated to the fair values of the acquired assets and liabilities. The Company accounts for this investment under the equity method of accounting.

Acquisition of Oil Products Retail Networks

OJSC JV ANTARES

In August 2007 the Company acquired a 100% interest in OJSC JV ANTARES, an indirect owner of a network of gas stations and an oil tank farm in the Moscow Region, for US$ 55 million.

Oxoil Limited

In September 2007 the Company acquired a 100% interest in Oxoil Limited (Cyprus), an indirect owner of a network of gas stations in the Moscow Region, for US$ 42 million.

Rokada Market LLC

In August 2007 the Company acquired a 100% interest in Rokada Market LLC for RUB 1,482 million (US$ 57.8 million at the CBR exchange rate as of the transaction date). Rokada Market LLC is the owner of a network of gas stations and an oil tank farm in the Stavropol region of the Russian Federation.

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

	As of date of acquisition
Current assets	$ 27
Non-current assets	157
Total assets	**184**
Current liabilities	25
Non-current liabilities	4
Total liabilities	**29**
Total net assets acquired	**$ 155**

This purchase price allocation is preliminary. The results of operations of OJSC JV ANTARES, Oxoil Limited and Rokada Market LLC are not material and therefore pro forma financial information has not been disclosed herein.

5. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	September 30, 2007 (unaudited)	December 31, 2006
Cash on hand and in bank accounts in RUB	**$ 490**	$ 244
Cash on hand and in bank accounts in foreign currencies	**158**	192
Deposits and other	**307**	69
Total cash and cash equivalents	**$ 955**	$ 505

Cash accounts denominated in foreign currencies represent primarily cash in US dollars.

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:

	September 30, 2007 (unaudited)	December 31, 2006
Trade receivables	**$ 2,669**	$ 1,176
Value-added tax receivable	**3,550**	2,092
Other taxes	**493**	117
Banking loans to customers	**918**	580
Accounts receivable from Yukos Oil Company	**530**	810
Other	**660**	129
Less: allowance for doubtful accounts	**(28)**	(65)
Total accounts receivable, net	**$ 8,792**	$ 4,839

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 reimbursable from the tax authorities in accordance with Russian tax legislation.

In June 2007, the Company received RUB 252.6 billion (US$ 9.8 billion at the CBR exchange rate as of the date of receipt) from the receiver as a result of Yukos Oil Company bankruptcy proceedings. The amount of US$ 483 million was recorded in these interim condensed consolidated financial statements 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.

Other accounts receivable include those acquired by the Company at the auction on August 15, 2007 from Yukos Oil Company (see Note 3) in the amount of US$ 129 million.

7. Assets Held for Sale

Assets held for sale comprise the 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 the companies located in Western and Eastern Siberia regions of the Russian Federation (see Note 3).

As of September 30, 2007 current assets held for sale amounting to US$ 479 million, non-current assets amounting to US$ 4,591 million (including goodwill of US$ 904 million), short-term liabilities amounting to US$ 1,946 million and long-term liabilities amounting to US$ 891 million are included in assets held for sale and liabilities related to assets held for sale in the consolidated balance sheets.

Upon completion of the sale, the investment in the above entities remaining with the Company will be accounted for using the equity method of accounting. See also Note 18.

8. Property, Plant and Equipment

	Initial cost		Accumulated depreciation		Net carrying amount	
	September, 30, 2007 (unaudited)	**December 31, 2006**	**September, 30, 2007 (unaudited)**	**December 31, 2006**	**September, 30, 2007 (unaudited)**	**December 31, 2006**
Exploration and production	**$ 45,338**	$ 38,553	**$ (7,897)**	$ (5,814)	**$ 37,441**	$ 32,739
Refining, marketing and distribution	**10,954**	3,493	**(1,084)**	(703)	**9,870**	2,790
Other activities	**1,892**	523	**(415)**	(107)	**1,477**	416
Total property and equipment	**$ 58,184**	$ 42,569	**$ (9,396)**	$ (6,624)	**$ 48,788**	$ 35,945

9. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities comprise the following:

	September 30, 2007 (unaudited)	**December 31, 2006**
Trade accounts payable	**$ 1,502**	$ 851
Salary and other benefits payable	**222**	130
Advances received	**3,725**	350
Dividends payable	**34**	2
Banking customer accounts	**693**	390
Obligations under Total E&P Vankor claim	**134**	134
Other	**502**	141
Total accounts payable and accrued liabilities	**$ 6,812**	$ 1,998

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

As of September 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 RUB 88.18 billion (US$ 3,534 million at the CBR exchange rate as of September 30, 2007).

10. Short-term and Long-term Debt

Short-term debt comprises the following:

		September 30, 2007 (unaudited)		December 31, 2006
Bank loans – foreign currencies	**$**	**14,028**	$	79
Bank loans – RUB denominated		**478**		2,517
Customer deposits – foreign currencies		**20**		29
Customer deposits – RUB denominated		**263**		164
Promissory notes payable		**56**		93
Promissory notes payable –Yukos related		**1,025**		678
Borrowings – RUB denominated		**16**		6
Borrowings – RUB denominated - Yukos related		**704**		497
Borrowings – US$ denominated		**–**		2
		16,590		4,065
Current portion of long-term debt		**2,707**		2,362
Total short-term debt and current portion of long-term debt	**$**	**19,297**	$	6,427

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 consortium of international banks in the total amount of US$ 22.0 billion to finance planned acquisitions (see Note 3). As of September 30, 2007, the amount outstanding under these bridge financing facilities was US$ 12.3 billion bearing interest of London Interbank Offering Rate ("LIBOR") plus 0.45% p.a.

In June-August 2007, the Company obtained three loans from Russian state controlled banks in the total amount of US$ 1,580 million bearing interest of 6.75%-7.0% p.a. for one year.

RUB denominated loans primarily include a loan received from a Russian state controlled bank bearing interest of 6.2% 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 interest rates ranging from 1% to 10.5% p.a. Customer deposits denominated in foreign currencies bear interest rates ranging from 2.5% p.a. to 12.98% p.a.

Promissory notes are primarily payable on demand. The promissory notes bear interest rates ranging from 0% to 14% 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 on the debt issue date. Promissory notes are primarily payable on demand. The promissory notes bear interest rates ranging from 0% p.a. to 18% p.a. The promissory notes are recorded at amortized cost.

RUB denominated borrowings - Yukos related primarily include borrowings provided by Yukos Capital S.a.r.l., which bear interest of 9% p.a. (see Note 15).

10. Short-term Debt and Long-term Debt (continued)

Long-term debt comprises the following:

	September 30, 2007 (unaudited)	December 31, 2006
Bank loans – foreign currency denominated	**$ 6,933**	$ 4,826
Bank loans raised for funding the acquisition of OJSC Yuganskneftegaz – US$ denominated	**4,008**	4,780
Borrowings – US$ denominated	**13**	30
Borrowings – RUB denominated	**19**	2
Borrowings – RUB denominated - Yukos related	**12**	–
Customer deposits – foreign currencies	**10**	15
Customer deposits – RUB denominated	**131**	85
Bonds of the subsidiary bank – RUB denominated	**23**	4
Promissory notes payable	**65**	22
Promissory notes payable - Yukos related	**983**	–
	12,197	9,764
Current portion of long-term debt	**(2,707)**	(2,362)
Total long-term debt	**$ 9,490**	$ 7,402

The interest rates on the Company's long-term bank loans denominated in foreign currencies range from 4.35% p.a. to 7.76% p.a. Weighted average interest rates on these loans were 5.73% and 5.96% (LIBOR plus 0.61% p.a., LIBOR plus 0.64% p.a.) as of September 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 a syndicate of international banks for US$ 2 billion with a term of five years and a cost of LIBOR plus 0.5% p.a. for the first three years and LIBOR plus 0.575% p.a. for the remaining two years. Additional syndication under this loan agreement resulted in an increase of the facility to US$ 3.1 billion in July 2007. The funds raised were used to refinance part of the bridge facilities raised earlier in 2007 for acquisitions. These borrowings are included within Bank loans – foreign currency denominated in the table above.

In January 2006, a subsidiary of the Company registered in Cyprus signed a loan agreement with a major international bank for an amount of Euro ("EUR") 188 million (US$ 266 million using the CBR rate as of September 30, 2007). The loan bears interest at the European Interbank Offering Rate ("EURIBOR") plus 0.35% p.a. As of September 30, 2007, the drawdown amount was EUR 158 million (US$ 223 million using the CBR rate as of September 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. This borrowing is included within Bank loans – foreign currency denominated in the table above.

As of September 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).

10. Short-term Debt and Long-term Debt (continued)

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 10% p.a. to 11% p.a. Deposits denominated in foreign currencies bear interest rates of 7% -7.5% p.a.

Promissory notes payable – Yukos related, represent financing originally received from the entities that were related to Yukos on the debt issue date. The promissory notes bear interest rates ranging from 0% p.a. to 14% p.a. The promissory notes are recorded at amortized cost.

The promissory notes payable mainly mature in 2009. The promissory notes bear interest rates ranging from 0% p.a. to 11% p.a. 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 the first 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. (further 'Yukos Capital') Litigation against OJSC Yuganskneftegaz (see Note 15) 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 nine months of 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 by OJSC Tomskneft VNK and OJSC Samaraneftegaz (see Note 15), 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 of September 30, 2007, the Company is in compliance with all restrictive financial covenants contained within its loan agreements.

10. Short-term Debt and Long-term Debt (continued)

The scheduled aggregate maturity of long-term debt outstanding as of September 30, 2007 is as follows:

	(unaudited)
Till December 31, 2007	**$ 627**
2008	**2,925**
2009	**4,213**
2010	**2,833**
2011	**971**
2012 and after	**628**
Total long-term debt	**$ 12,197**

11. Shareholders' Equity

In April 2007, a subsidiary of the Company 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. For consolidated financial reporting purposes, the purchase price amounted to RUB 194.05 billion for Rosneft shares, or RUB 194.05 per share (US$ 7.52 billion and US$ 7.52 per share at the CBR exchange rate as of the date of the auction, respectively). These shares were recorded at their purchase price and treated as treasury shares and therefore shown as deduction from 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 (US$ 546 million at the CBR exchange rate as at the date of decision), or US$ 0.05 per share. US$ 498 million of the above related to outstanding shares.

12. Revenue Related Taxes

Revenues include the following export customs duty:

	Three months ended September 30, 2007 (unaudited)	Three months ended September 30, 2006 (unaudited) as restated	Nine months ended September 30, 2007 (unaudited)	Nine months ended September 30, 2006 (unaudited) as restated
Oil and gas sales				
Export customs duty	**$ 2,812**	$ 2,586	**$ 7,287**	$ 6,726
Sales of petroleum products and processing fees				
Export customs duty	**693**	361	**1,410**	1,014
Total revenue related taxes	**$ 3,505**	$ 2,947	**$ 8,697**	$ 7,740

13. Income Tax Expense

Income tax comprises the following:

	Three months ended September 30, 2007 (unaudited)	Three months ended September 30, 2006 (unaudited) as restated	Nine months ended September 30, 2007 (unaudited)	Nine months ended September 30, 2006 (unaudited) as restated
Current income tax expense	**$ 713**	$ 399	**$ 2,301**	$ 1,353
Deferred income tax expense / (benefit)	**(139)**	46	**894**	(89)
Total income tax expense	**$ 574**	$ 445	**$ 3,195**	$ 1,264

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 activities, 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 transactions as part of regular activities in the Russian Federation in the normal course of business.

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

	Nine months ended September 30, 2007 (unaudited)	Nine months ended September 30, 2006 as restated (unaudited)
Revenues		
Oil and gas sales	**$ 56**	$ 3
Sales of petroleum products and processing fees	**113**	131
Support services and other revenues	**10**	8
	$ 179	$ 142
Costs and expenses		
Production and operating expenses	**$ 78**	$ 12
Pipeline tariffs and transportation costs	**2,710**	1,488
Other expenses	**14**	13
	$ 2,802	$ 1,513
Other operations		
Sale of short-term and long-term investments	**$ –**	$ 4
Acquisition of short-term and long-term investments	**–**	14
Proceeds from short-term and long-term debt	**5,650**	4,867
Repayment of short-term and long-term debt	**6,974**	7,064
Deposits placed	**–**	8,952
Deposits paid	**86**	8,175
Borrowings issued	**–**	121
Repayment of borrowings issued	**–**	111
Interest expense	**249**	301
Interest income	**8**	23
Banking fees	**$ 4**	$ –

14. Related Party Transactions (continued)

	September 30, 2007 (unaudited)		December 31, 2006	
Assets				
Cash and cash equivalents	**$**	**167**	$	69
Accounts receivable		**32**		20
Prepayments and other current assets		**222**		137
Short-term and long-term investments		**–**		172
	$	**421**	$	398
Liabilities				
Accounts payable	**$**	**27**	$	24
Short-term and long-term debt (including interest)		**6,055**		7,282
Advances received		**3,534**		–
	$	**9,616**	$	7,306

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 ended September 30, as well as related party balances as of September 30, 2007 and December 31, 2006 are provided in the table below:

	Nine months ended September 30, 2007 (unaudited)		Nine months ended September 30, 2006 as restated (unaudited)	
Revenues				
Oil and gas sales	**$**	**23**	$	25
Sales of petroleum products and processing fees		**116**		65
Support services and other revenues		**79**		28
	$	**218**	$	118
Costs and expenses				
Production and operating expenses	**$**	**3**	$	11
Purchase of oil and petroleum products		**590**		–
Other expenses		**65**		36
	$	**658**	$	47
Other operations				
Sale of short-term and long-term investments	**$**	**1**	$	18
Acquisition of short-term and long-term investments		**8**		67
Proceeds from short-term and long-term debt		**–**		20
Repayment of short-term and long-term debt		**7**		29
Borrowings issued		**40**		86
Repayment of borrowings issued		**24**		27
Interest expense		**3**		3
Interest income		**42**		8
Dividends received	**$**	**19**	$	4

	September 30, 2007 (unaudited)		December 31, 2006	
Assets				
Accounts receivable	**$**	**31**	$	33
Prepayments and other current assets		**41**		42
Short-term and long-term investments		**153**		121
	$	**225**	$	196
Liabilities				
Accounts payable	**$**	**465**	$	193
Short-term and long-term debt (including interest)		**10**		9
	$	**475**	$	202

15. 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. 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 to inspection for a period of up to three years. The fact that a year has been reviewed does not preclude 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 income tax positions taken by the Company are sustainable and will not have any significant negative impact on the Company's consolidated financial position or results of operations.

The Company and certain of its subsidiaries are currently being audited by tax authorities for the years 2004-2006 (for the period up to September 30, 2006). Based on the preliminary results of these tax audits RUB 414 million liability was accrued in these consolidated financial statements (US$ 17 million at the CBR official exchange rate as of the balance sheet date). The Company's management believes that the final outcome of these tax audits will not have any significant negative impact on the Company's consolidated financial position or results of operations.

The Company provides financing for operations of its subsidiaries by various means which may lead to certain income 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.

15. Commitments and Contingencies (continued)

Taxation (continued)

The Company is currently challenging a number of decisions made by the tax authorities to accrue additional VAT and not to reimburse VAT paid to suppliers in the amount of RUB 18,461 million (US$ 740 million at the CBR exchange rate as of September 30, 2007). The claims of RUB 16,090 million (US$ 645 million at the CBR exchange rate as of September 30, 2007) have been upheld by various courts, however they are subject to further appeal by the tax authorities. The claims of RUB 728 million (US$ 29 million at the CBR exchange rate as of September 30, 2007) have not been upheld by the courts, however the Company has the right and intends to appeal them vigorously. The remaining claims of RUB 1,643 million (US$ 66 million at the CBR exchange rate as of September 30, 2007) are still being heard in the courts.

The Company's management believes that the outcome of these tax claims will not have any significant negative 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 September 30, 2007, 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$ 211 million, US$ 168 million of which were recorded within income and other tax liabilities as preacquisition contingencies.

In May 2007 by an Order of the Government of the Russian Federation, 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 along 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 US$ 454 million was due as of September 30, 2007. The total amount of interest and penalties payable as of September 30, 2007 with respect to tax liabilities of OJSC Yuganskneftegaz amounted to US$ 973 million. The interest will continue to accrue until the restructuring plan is approved by the Government of the Russian Federation and the respective regional bodies which is expected in the first half of 2008. The interest will continue to accrue monthly in accordance with the Tax Code of the Russian Federation at the CBR refinancing rate. The total principle amount subject to tax restructuring provisions is US$ 1,314 million. 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 intends to comply with the tax restructuring plan, including acceleration provision, once and if it is in effect. 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 fully met nor was 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$ 399 million was recorded in the consolidated financial statements for the first six months ended June 30, 2007 as a change in estimate. As discussed above, the interest continued to accrue in the third quarter of 2007 and additional accrual in the amount of US$ 55 million was recorded in the consolidated income statement for the three months ended September 30, 2007.

15. Commitments and Contingencies (continued)

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.

Following the acquisitions described in Note 3, the Company issued irrevocable offers to acquire the outstanding non-controlling interests in the subsidiaries in which it had acquired more than 30% as required by Russian law, where it exists. The maximum total amount of the offers, if accepted by minority shareholders, is US$59 million.

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 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 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$ 73 million and US$ 81 million in social infrastructure and similar expenses for the first nine months of 2007 and 2006, respectively. These expenses are presented as other expenses in the statement of income and comprehensive income.

Pension Plans

For the first nine months of 2007 and 2006 the Company contributed to the non-state corporate pension fund US$ 48 million and US$ 16 million, respectively, under a defined contribution pension plan.

15. Commitments and Contingencies (continued)

Insurance

As of September 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$ 3,679 million and US$ 2,209 million, respectively.

Guarantees and Indemnity

As of September 30, 2007, the Company has provided guarantees for certain debt agreements of its subsidiaries. In accordance with the debt agreements, the Company is obliged to perform on the guarantee and to pay 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 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 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, a 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 during the term of this 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 subsidiary, under the contract for electricity supply with OJSC Tyumenskaya Energosbytovaya Companiya for the period through January 31, 2010, in the amount of US$ 58 million.

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

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

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 and on August 16, 2007 a final ruling to dismiss Moravel's claim to OJSC Yuganskneftegaz. 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 9th Appeal Arbitration Court in appeal hearing and in cassational instance on August 31, 2006, which made it final, legally binding and enforceable.

Currently the Company is actively challenging in arbitration courts of the Russian Federation the validity of guarantee agreements signed by OJSC Samaraneftegaz and OJSC Tomskneft VNK with respect to Yukos Oil Company loan received from Societe Generale S.A. The Company's management believes that the probability of payments under these guarantees is remote. On December 5, 2007, the court ruled in favor of the Company ruling that the guarantee by OJSC Samaraneftegaz invalid. On December 25, 2007, the court ruled in favor of the Company ruling that the guarantee by OJSC Tomskneft VNK invalid. These decisions are subject to further appeal.

15. Commitments and Contingencies (continued)

Litigation, Claims and Assessments

Yukos Capital, a subsidiary of Yukos Oil Company, initiated arbitral proceedings against OJSC Yuganskneftegaz before the International Court of Commercial arbitration ("ICCA") at the Russian Federation Chamber of Commerce and Industry alleging default under four rouble-denominated loans.

The ICCA issued its decisions on September 19, 2006 ruling in favor of Yukos Capital and awarding damages to Yukos Capital, including accrued interest and arbitration costs, in the total amount of RUB 12,937 million (US$ 518 million at the CBR exchange rate at September 30, 2007). In executing the ICCA decisions against the Company in the Netherlands, on December 19, 2006, the Amsterdam Court, acting on a petition of Yukos Capital, issued an attachment order against the Company with respect to certain receivables. On 11 December 2007, the Amsterdam Court examined Yukos Capital's petition on enforcement of the ICCA decisions and adjourned its decision until 24 January 2008. The Company appealed the ICCA decisions before the Moscow Arbitration Court. On May 23, 2007, the Moscow Arbitration Court satisfied the Company's petition on discharge of ICCA decisions and invalidated the ICCA decisions. Yukos Capital appealed the decisions of the first instance court to a cassation court. On August 13, 2007, the cassation court upheld the decisions of the lower court and rejected Yukos Capital's claims. On October 29, 2007, Yukos Capital appealed the decisions of the cassation court to the Supreme Arbitration Court of Russia. On December 10, 2007 the Supreme Arbitration Court of Russia upheld the decisions of the lower courts and rejected Yukos Capital's claims.

In addition, Yukos Capital initiated arbitral proceedings against OJSC Tomskneft VNK before the International Court of Arbitration ("ICA") at the International Chamber of Commerce alleging default under three rouble-denominated loans. On February 12, 2007, the ICC ruled in favor of Yukos Capital and issued an award to Yukos Capital, including US$ 275 million of principal, interest, damages and arbitration costs. In addition, the award amount accrues interest at 9% p.a. to the date of payment. No enforcement proceedings have been initiated in Russia (or elsewhere).

In January 2006, Yukos Capital initiated arbitral proceedings against OJSC Samaraneftegaz before the ICC alleging default under two rouble-denominated loans and claiming early redemption of these loans and accrued interest. On August 15, 2007, the ICC ruled in favor of Yukos Capital and issued an award to Yukos Capital, including US$ 121 million of principal, interest, arbitration and legal costs. In addition, the principal and interest amounts awarded to Yukos Capital against OJSC Samaraneftegaz accrue interest at 9% p.a. to the date of payment. No enforcement proceedings have been initiated in Russia (or elsewhere).

A subsidiary of Rosneft that holds shares in OJSC Tomskneft VNK and OJSC Samaraneftegaz has filed claims in Russia seeking to have OJSC Tomskneft VNK's and OJSC Samaraneftegaz's loans described above declared void as a matter of Russian law. On December 18, 2007, preliminary hearings on the claim by the shareholder of Rosneft against Yukos Capital and Rosneft were rescheduled for January 28, 2008. Preliminary hearings on the claim by the Rosneft's subsidiary against Yukos Capital and OJSC Tomskneft VNK are scheduled for February 14, 2008. Preliminary hearings on the claim by the Rosneft's subsidiary against Yukos Capital and OJSC Samaraneftegaz are scheduled for 14 March 2008. The Company believes, that any payment in excess of carrying amount of the loans (see Note 10) is remote.

15. Commitments and Contingencies (continued)

Litigation, Claims and Assessments (continued)

The Company is a co-defendant in the litigation in the United States of America 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. On November 26, 2007, the United States District Court for the District of Columbia, granted motions to dismiss Rosneft, its officers and other defendants from the action on jurisdictional grounds. These dismissals are subject to appeal. The Company and its officers intend to continue to contest these claims vigorously and believe that these claims are without merit.

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 plaintiff is seeking to recover all the common shares of OJSC Yuganskneftegaz and also damages in the total amount of RUB 388 billion (US$ 15.5 billion at the CBR exchange rate as of September 30, 2007). In February 2007, the Moscow Arbitration Court dismissed Yukos Oil Company's claim and the dismissal was upheld on appeal on May 30, 2007. This ruling was also upheld in cassation court on October 12, 2007. Yukos Oil Company was liquidated on November 21, 2007.

In September 2007, Ecolnat Prim, a Moldavian company acting on behalf of a company called New Century Securities Management Anstald ("New Century Securities"), filed a claim in Moldova against the OJSC Angarsk Petrochemical Company, LLC Fericire-Faleshti and LLC Metmar under a promissory note, which was alleged to have been issued by OJSC Angarsk Petrochemical Company in 1996, for the aggregate amount of US$ 446 million. New Century Securities earlier initiated court proceedings against the OJSC Angarsk Petrochemical Company and AKB Rostrabank demanding payment of the principal amount, interest and penalties under this promissory note in Russia. Although the first instance court ruled in favor of New Century Securities in 2005, the appellate court, the cassation court and the Supreme Arbitration Court of Russia dismissed the claim by New Century Securities during 2006-2007 based on the failure of New Century Securities to provide the original of the promissory note to the first instance court. On July 17, 2007, the Constitutional Court of Russia rejected the claim by New Century Securities challenging the compliance of certain rules of both Russian substantive and procedural law with the Constitution of the Russian Federation. On December 24, 2007, the court proceedings in respect of the claim by Ecolnat Prim relating to the Angarsk Refinery Promissory Note were terminated. This decision is subject to appeal. Rosneft plans to vigorously contest the claim by Ecolnat Prim and believes that the risk of any negative outcome is remote.

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.

15. Commitments and Contingencies (continued)

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 amount of 48.4 million tons. The prices are determined based on common 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 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 September 30, 2007:

	Exploration and production (unaudited)	**Refinery, marketing and distribution (unaudited)**	**Other activities (unaudited)**	***Total elimination* (unaudited)**	**Consolidated (unaudited)**
Revenues from external customers	**$ 869**	**$ 12,678**	**$ 195**	**$ –**	**$ 13,742**
Intersegmental revenues	**2,582**	**570**	**608**	**(3,760)**	**–**
Total sales revenue	**$ 3,451**	**$ 13,248**	**$ 803**	**$ (3,760)**	**$ 13,742**
Operating expenses and cost of purchased oil and petroleum products	**$ 589**	**$ 841**	**$ 225**	**$ –**	**$ 1,655**
Depreciation, depletion and amortization	**$ 782**	**$ 110**	**$ 9**	**$ –**	**$ 901**
Operating income	**$ 1,213**	**$ 5,152**	**$ 498**	**$ (3,760)**	**$ 3,103**
Total other expenses, net					**(627)**
Income before income tax					**$ 2,476**

16. Segment Information (continued)

Operating segments for three months ended September 30, 2006 (restated):

	Exploration and production (unaudited)	Refinery, marketing and distribution (unaudited)	Other activities (unaudited)	*Total elimination* (unaudited)	Consolidated (unaudited)
Revenues from external customers	$ 16	$ 8,753	$ 182	$ –	$ 8,951
Intersegmental revenues	4,016	443	1,255	(5,714)	–
Total sales revenue	$ 4,032	$ 9,196	$ 1,437	$ (5,714)	$ 8,951
Operating expenses and cost of purchased oil and petroleum products	$ 451	$ 266	$ 36	$ –	$ 753
Depreciation, depletion and amortization	$ 266	$ 44	$ 134	$ –	$ 444
Operating income	$ 1,396	$ 4,841	$ 1,225	$ (5,714)	$ 1,748
Total other expenses, net					(229)
Income before income tax					$ 1,519

Operating segments for nine months ended September 30, 2007:

	Exploration and production (unaudited)	Refinery, marketing and distribution (unaudited)	Other activities (unaudited)	*Total elimination* (unaudited)	Consolidated (unaudited)
Revenues from external customers	**$ 1,651**	**$ 30,776**	**$ 320**	**$ –**	**$ 32,747**
Intersegmental revenues	**6,422**	**1,588**	**1,316**	**(9,326)**	**–**
Total sales revenue	**$ 8,073**	**$ 32,364**	**$ 1,636**	**$ (9,326)**	**$ 32,747**
Operating expenses and cost of purchased oil and petroleum products	**$ 1,755**	**$ 1,769**	**$ 284**	**$ –**	**$ 3,808**
Depreciation, depletion and amortization	**$ 2,168**	**$ 225**	**$ 31**	**$ –**	**$ 2,424**
Operating income	**$ 3,427**	**$ 11,252**	**$ 1,207**	**$ (9,326)**	**$ 6,560**
Total other income, net					**6,560**
Income before income tax					**$ 13,120**
Total assets	**$ 45,149**	**$ 24,298**	**$ 5,341**	**$ –**	**$ 74,788**

Operating segments for nine months ended September 30, 2006 (restated):

	Exploration and production (unaudited)	Refinery, marketing and distribution (unaudited)	Other activities (unaudited)	*Total elimination* (unaudited)	Consolidated (unaudited)
Revenues from external customers	$ 249	$ 24,344	$ 287	$ –	$ 24,880
Intersegmental revenues	9,622	976	1,557	(12,155)	–
Total sales revenue	$ 9,871	$ 25,320	$ 1,844	$ (12,155)	$ 24,880
Operating expenses and cost of purchased oil and petroleum products	$ 1,162	$ 1,057	$ 103	$ –	$ 2,322
Depreciation, depletion and amortization	$ 821	$ 275	$ 140	$ –	$ 1,236
Operating income	$ 2,372	$ 13,442	$ 1,484	$ (12,155)	$ 5,143
Total other expenses, net					(852)
Income before income tax					$ 4,291
Total assets	$ 24,247	$ 6,861	$ 4,006	$ –	$ 35,114

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 September 30, 2007 (unaudited)	Three months ended September 30, 2006 (unaudited) as restated	Nine months ended September 30, 2007 (unaudited)	Nine months ended September 30, 2006 (unaudited) as restated
Oil and gas sales				
Export sales of crude oil – Europe and other directions	**$ 5,256**	$ 4,267	**$ 14,005**	$ 12,207
Export sales of crude oil – Asia	**1,565**	1,458	**4,249**	3,758
Export sales of crude oil – CIS	**639**	513	**1,469**	1,253
Domestic sales of crude oil	**17**	92	**446**	171
Domestic sales of gas	**85**	52	**240**	146
Total oil and gas sales	**$ 7,562**	$ 6,382	**$ 20,409**	$ 17,535
Petroleum products and processing fees				
Export sales of petroleum products – Europe and other directions	**1,859**	812	**3,701**	2,402
Export sales of petroleum products – Asia	**969**	458	**2,114**	1,539
Export sales of petroleum products – CIS	**79**	59	**165**	145
Domestic sales of petroleum products and processing fees	**2,958**	1,114	**5,757**	2,983
Total petroleum products and processing fees	**$ 5,865**	$ 2,443	**$ 11,737**	$ 7,069

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 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 but these are not accounted for as hedges pursuant to SFAS 133.

During the first nine months ended September 30, 2007, the Company entered into forward and option foreign currency contracts 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 economically hedged exposures to the variability of the currency exchange rates under its derivative instruments is 12 months.

As a result of the above mentioned forward and option foreign currency contracts entered into in the first nine months of 2007, the fair value of forward contracts in the amount of US$ 102.7 million was recorded as prepayments and other current assets in the consolidated balance sheet as of September 30, 2007 and the change in fair value was recognized as a foreign exchange gain in the amount of US$ 78.1 million in the consolidated statement of income and comprehensive income, net of tax effects.

18. Subsequent Events

In October 2007, the Company received RUB 41.7 billion (US$ 1.7 billion at the CBR exchange rate as of September 30, 2007) from the receiver as a result of Yukos Oil Company bankruptcy proceedings, of which RUB 25.9 billion (US$ 1.1 billion at the CBR exchange rate as of September 30, 2007) will be recognized as income in the statement of income and comprehensive income, while the remaining part of RUB 15.8 billion (US$ 633 million at the CBR exchange rate as of September 30, 2007, US$ 612 million at the CBR rate as of the date of acquisition) represents a revision of the preliminary purchase price allocation (see also Note 3).

In October 2007, Anglo Siberian Oil Company Limited (Cyprus), the Company's wholly owned subsidiary, bought 100% of the shares of E&P Vankor Ltd for US$ 88 million. E&P Vankor Ltd is the beneficiary under the succeeded legal claim against Anglo Siberian Oil Company Limited by Total E&P Vankor. The Company has accrued US$ 134 million in respect of this claim as of September 30, 2007 (see also Note 9). E&P Vankor Ltd. does not own any other significant assets and has no liabilities other than related tax liability of US$ 46 million. Accordingly this transaction will be accounted for as an asset acquisition.

On December 26, 2007 the Company sold 50% of assets which were classified as held for sale as of September 30, 2007 (see also Note 7) to a related party under common control for RUB 88.18 billion (US$ 3,534 million at the CBR rate as of September 30, 2007).

In October 2007, the Company repaid US$ 600 million of one of the short-term bridge loans received from a consortium of international banks, which were drawn to finance acquisitions. In addition, in October 2007, the Company repaid RUB 11.4 billion (US$ 457 million at the CBR rate as of September 30, 2007) of the loan received from one Russian state-controlled bank.