ROSNEFT

OIL COMPANY

OPEN JOINT STOCK COMPANY

OJSC Oil Company Rosneft

Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2008 and 2007

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Contents

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Consolidated Balance Sheets

(in millions of US dollars, except share amounts)

	Notes	September 30, 2008 (unaudited)	December 31, 2007
ASSETS			
Current assets:			
Cash and cash equivalents	**5**	**1,191**	998
Restricted cash		**15**	34
Short-term investments	**6**	**511**	338
Accounts receivable, net of allowance	**7**	**7,960**	9,785
Inventories	**8**	**2,290**	1,926
Deferred tax assets		**135**	156
Prepayments and other current assets	**9**	**1,651**	1,731
Total current assets		**13,753**	14,968
Non-current assets:			
Long-term investments	**10**	**3,017**	2,646
Long-term bank loans granted, net of allowance of US$ 14 and US$ 20, respectively		**413**	260
Property, plant and equipment, net	**11**	**54,167**	51,703
Goodwill	**3, 12**	**4,507**	3,789
Intangible assets, net	**12**	**686**	285
Deferred tax assets		**182**	57
Other non-current assets	**13**	**1,447**	1,097
Total non-current assets		**64,419**	59,837
Total assets		**78,172**	74,805
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	**14**	**4,590**	4,022
Short-term loans and current portion of long-term debt	**15**	**8,415**	15,550
Income and other tax liabilities	**17**	**2,093**	2,346
Deferred tax liabilities		**132**	118
Other current liabilities		**114**	88
Total current liabilities		**15,344**	22,124
Asset retirement obligations		**2,257**	2,130
Long-term debt	**15**	**12,374**	11,723
Deferred tax liabilities		**7,262**	7,626
Other non-current liabilities	**20**	**2,171**	2,485
Total non-current liabilities		**24,064**	23,964
Minority interest		**659**	277
Shareholders' equity:			
Common stock par value 0.01 RUB (shares outstanding: 9,598 million as of September 30, 2008 and December 31, 2007)		**20**	20
Treasury shares:			
- unpledged (at acquisition cost: 505.07 million and 1,000 million shares as of September 30, 2008 and December 31, 2007, respectively)		**(3,799)**	(7,521)
- pledged (at acquisition cost: 494.93 million and 0 shares as of September 30, 2008 and December 31, 2007, respectively)	**15**	**(3,722)**	–
Additional paid-in capital		**13,075**	13,075
Other comprehensive loss	**2**	**(30)**	–
Retained earnings	**16**	**32,561**	22,866
Total shareholders' equity		**38,105**	28,440
Total liabilities and shareholders' equity		**78,172**	74,805

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

OJSC Oil Company Rosneft

Consolidated Statements of Income and Comprehensive Income

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

	Notes	Three months ended September 30, 2008 (unaudited)	Three months ended September 30, 2007 (unaudited)	Nine months ended September 30, 2008 (unaudited)	Nine months ended September 30, 2007 (unaudited)
Revenues					
Oil and gas sales	**23**	**10,196**	7,562	**30,654**	20,409
Petroleum products sales and processing fees	**23**	**10,046**	5,865	**26,405**	11,737
Support services and other revenues		**448**	315	**1,133**	601
Total		**20,690**	13,742	**58,192**	32,747
Costs and expenses					
Production and operating expenses		**1,153**	1,329	**3,259**	2,605
Cost of purchased oil, gas, petroleum products and refining costs		**841**	326	**2,382**	1,203
General and administrative expenses		**375**	383	**1,164**	843
Pipeline tariffs and transportation costs		**1,481**	1,166	**4,264**	3,069
Exploration expenses		**41**	23	**164**	82
Depreciation, depletion and amortization		**1,051**	901	**3,081**	2,424
Accretion expense		**29**	19	**100**	42
Taxes other than income tax	**19**	**4,433**	2,987	**12,558**	7,222
Export customs duty	**18**	**7,040**	3,505	**17,325**	8,697
Total		**16,444**	10,639	**44,297**	26,187
Operating income		**4,246**	3,103	**13,895**	6,560
Other income/(expenses)					
Interest income		**108**	77	**277**	155
Interest expense		**(222)**	(422)	**(724)**	(1,067)
Loss on disposal of property, plant and equipment		**(12)**	(49)	**(38)**	(83)
Gain/(loss) on disposal of investments		**8**	(13)	**4**	(1)
Equity share in affiliates' profits	**10**	**80**	6	**206**	5
Dividends and income from joint ventures		**5**	3	**7**	9
Gain from Yukos Oil Company bankruptcy proceedings		**–**	–	**–**	7,920
Other expenses, net		**(38)**	(97)	**(66)**	(215)
Foreign exchange gain / (loss)		**368**	(132)	**202**	(163)
Total other income/(expenses)		**297**	(627)	**(132)**	6,560
Income before income tax and minority interest		**4,543**	2,476	**13,763**	13,120
Income tax	**19**	**(1,056)**	(574)	**(3,362)**	(3,195)
Income before minority interest		**3,487**	1,902	**10,401**	9,925
Minority interest in subsidiaries' earnings, net of tax		**(18)**	(12)	**(56)**	(15)
Net income		**3,469**	1,890	**10,345**	9,910
Other comprehensive loss	**2**	**(14)**	(7)	**(30)**	–
Comprehensive income		**3,455**	1,883	**10,315**	9,910
Net earnings per share (in US$) – basic and diluted		**0.36**	0.20	**1.07**	0.99
Weighted average number of shares outstanding (millions)		**9,598**	9,598	**9,598**	9,990

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

OJSC Oil Company Rosneft

Consolidated Statements of Cash Flows

(in millions of US dollars)

	Nine months ended September 30, 2008 (unaudited)	Nine months ended September 30, 2007 (unaudited)
Operating activities		
Net income	**10,345**	9,910
Adjustments to reconcile net income to net cash provided by operating activities:		
Effect of foreign exchange	**(204)**	88
Depreciation, depletion and amortization	**3,081**	2,424
Dry well expenses	**120**	57
Loss on disposal of property, plant and equipment	**38**	83
Deferred income tax	**(616)**	894
Accretion expense	**100**	42
Equity share in affiliates' profits	**(206)**	(5)
Loss/ (gain) on disposal of investments	**(4)**	1
Acquisition of trading securities	**(90)**	(364)
Proceeds from sale of trading securities	**100**	248
Decrease in allowance for doubtful accounts and bank loans granted	**(5)**	(30)
Gain from disposal of promissory notes	**(39)**	–
Minority interests in subsidiaries' earnings	**56**	15
Gain from Yukos Oil Company bankruptcy proceedings	–	(7,920)
Cash received from Yukos Oil Company bankruptcy receiver	–	9,316
Changes in operating assets and liabilities net of acquisitions:		
Decrease / (increase) in accounts receivable	**1,901**	(2,802)
Increase in inventories	**(361)**	(233)
Decrease / (increase) in restricted cash	**19**	(87)
Decrease in prepayments and other current assets	**81**	16
Increase in other non-current assets	**(24)**	(192)
Increase in long-term bank loans granted	**(147)**	(164)
Increase in interest payable	**116**	110
Increase in accounts payable and accrued liabilities	**83**	896
(Decrease)/ increase in income and other tax liabilities	**(272)**	777
(Decrease)/ increase in other current and non-current liabilities	**(281)**	8
Net cash provided by operating activities	**13,791**	13,088

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

OJSC Oil Company Rosneft

Consolidated Statements of Cash Flows (continued)

(in millions of US dollars)

	Nine months ended September 30, 2008 (unaudited)	Nine months ended September 30, 2007 (unaudited)
Investment activities		
Capital expenditures	**(6,426)**	(4,538)
Acquisition of licences	**(47)**	(52)
Proceeds from disposals of property, plant and equipment	**52**	34
Acquisition of short-term investments, including		
Held-to-maturity securities	**(1,304)**	(64)
Available-for-sale securities	**(2)**	–
Proceeds from sale of short-term investments, including		
Held-to-maturity securities	**1,120**	114
Available-for-sale securities	**2**	132
Acquisition of long-term investments, including		
Held-to-maturity securities	**(279)**	(182)
Available-for-sale securities	**(21)**	(11)
Proceeds from sale of long-term investments, including		
Held-to-maturity securities	**6**	1
Available-for-sale securities	**13**	6
Acquisition of entities and additional shares in subsidiaries, net of cash acquired	**(12)**	(17,004)
Advance payment for the sale of shares in OJSC Tomskneft VNK	–	3,400
Repayment of debt receivable	–	483
Margin call deposit placed	**(934)**	–
Margin call deposit returned	**440**	–
Net cash used in investing activities	**(7,392)**	(17,681)
Financing activities		
Proceeds from short-term debt	**3,067**	14,249
Repayment of short-term debt	**(13,735)**	(2,600)
Proceeds from long-term debt	**6,856**	3,396
Repayment of long-term debt	**(2,270)**	(1,997)
Dividends paid to shareholders	**(83)**	(488)
Cash paid for acquisition of treasury shares	**–**	(7,521)
Dividends paid to minority shareholders in subsidiaries	**(20)**	(15)
Net cash (used in)/provided by financing activities	**(6,185)**	5,024
Increase in cash and cash equivalents	**214**	431
Cash and cash equivalents at beginning of period	**998**	505
Effect of foreign exchange on cash and cash equivalents	**(21)**	19
Cash and cash equivalents at end of period	**1,191**	955
Supplementary disclosures of cash flow information		
Cash paid for interest (net of amount capitalized)	**479**	822
Cash paid for income taxes	**3,193**	2,692

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

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

1. Nature of Operations

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

2. Significant Accounting Policies

Form and Content of the Interim Condensed Consolidated Financial Statements

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

The interim condensed consolidated financial statements included herein are unaudited and have been prepared in accordance with US GAAP for interim financial reporting of public companies (primarily Accounting Principle Board Opinion ("APB") 28, *Interim Financial Reporting*) and do not include all disclosures required by US GAAP. The Company omitted disclosures which would substantially duplicate the information contained in its 2007 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Company has provided disclosures where significant events have occurred subsequent to the issuance of its 2007 audited consolidated financial statements. Management believes that the disclosures are adequate to make the information presented not misleading if these interim condensed consolidated financial statements are read in conjunction with the Company's 2007 audited consolidated financial statements and the notes related thereto. In the opinion of management, the financial statements reflect all adjustments of a normal and recurring nature necessary to present fairly the Company's consolidated financial position, results of operations and cash flows for the interim periods.

The results of operations for nine months ended September 30, 2008 may not be indicative of the results of operations for the full year ended December 31, 2008. These interim condensed consolidated financial statements contain information updated through November 28, 2008.

2. Significant Accounting Policies (continued)

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

The accompanying interim condensed consolidated financial statements differ from the financial statements issued for statutory purposes in Russia in that they reflect certain adjustments, not recorded in the Company's statutory books, which are appropriate to present the financial position, results of operations and cash flows in accordance with US GAAP. The principal adjustments relate to: (1) recognition of certain expenses; (2) valuation and depreciation of property, plant and equipment; (3) foreign currency translation; (4) deferred income taxes; (5) valuation allowances for unrecoverable assets; (6) accounting for the time value of money; (7) accounting for investments in oil and gas property and conveyances; (8) consolidation principles; (9) recognition and disclosure of guarantees, contingencies, commitments and certain assets and liabilities; (10) accounting for asset retirement obligations; (11) business combinations and goodwill/negative goodwill; (12) accounting for derivative instruments.

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

Management Estimates

The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheet as well as the amounts of revenues and expenses recognized during the reporting periods. Certain significant estimates and assumptions for the Company include: estimation of economically recoverable oil and gas reserves; rights to, recoverability and useful lives of long-term assets and investments; impairment of goodwill; allowances for doubtful accounts receivable; asset retirement obligations; legal and tax contingencies; environmental remediation obligations; recognition and disclosure of guarantees and other commitments; fair value measurements; ability to renew operating leases and to enter into new lease agreements, and classification of certain debt amounts. Management believes it has a reasonable and appropriate basis for its judgment pertaining to its estimates and assumptions. However, actual results could differ from those estimates.

Foreign Currency Translation

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

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

As of September 30, 2008 and December 31, 2007, the Central Bank of the Russian Federation ("CBR") official rates of exchange were 25.25 rubles and 24.55 rubles per US dollar, respectively. Average rates of exchange in the first nine months of 2008 and 2007 were 24.25 rubles and 25,89 rubles per US dollar, respectively. As of November 28, 2008, the official rate of exchange was 27.42 rubles ("RUB") per US dollar.

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

2. Significant Accounting Policies (continued)

Principles of Consolidation

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

Business Combinations

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

Goodwill and Other Intangible Assets

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

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

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

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

Income Taxes

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

2. Significant Accounting Policies (continued)

Derivative Instruments

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

Comprehensive Income

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

As of September 30, 2008, the Company recorded other accumulated comprehensive loss in the amount of US$ 30 million (net of tax) which represent an unrealized loss resulting from the revaluation of available-for-sale investments.

Accounting for Buy/Sell Contracts

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

Sale and Repurchase Transactions Involving Securities

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

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

2. Significant Accounting Policies (continued)

Recent Accounting Standards

In April 2008, the FASB issued Staff Position ("FSP") FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP FAS 142-3") with the objective of improving the consistency between the useful life of a recognized intangible asset under SFAS 142, *Goodwill and Other Intangible Assets,* and the period of expected cash flows used to measure the fair value of the asset under SFAS 141 (revised 2007), *Business Combinations,* and other US GAAP standards. FSP FAS 142-3 establishes additional factors to be considered by an entity in developing assumptions about renewal or extension used to determine the useful life of an intangible asset recognized under SFAS 142. FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company will adopt FSP FAS 142-3 effective January 1, 2009. The Company has not yet identified the impact FSP FAS 142-3 will have on the Company's consolidated financial position and results of operations.

In May 2008, the FASB issued FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* ("FSP APB 14-1"). FSP APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion # 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*. Additionally, FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. With some exceptions FSP APB 14-1 shall be applied retrospectively to all periods presented. The Company will adopt FSP APB 14-1 effective January 1, 2009. The Company does not expect FSP APB 14-1 to have a material impact on the Company's consolidated financial position and results of operations.

In September 2008, the FASB issued FSP FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161*. FSP is intended to improve disclosures about credit derivatives by requiring more information about the potential adverse effects of changes in credit risk on the financial position, financial performance, and cash flows of the sellers of credit derivative. The FSP also amends FASB Interpretation ("FIN") 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others*, to require an additional disclosure about the current status of the payment/performance risk of a guarantee. The provisions of the FSP that amend FAS 133 and FIN 45 are effective for reporting periods (annual or interim) ending after November 15, 2008. The Company will adopt FSP FAS 133-1 and FIN 45-4 effective December 31, 2008. The Company has not yet identified the impact FSP 133-1 and FIN 45-4 will have on the Company's consolidated financial position and results of operations.

In October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* ("FSP FAS 157-3") that applies to financial assets within the scope of accounting pronouncements that require or permit fair value measurements in accordance with FAS 157, *Fair Value Measurements*. FSP FAS 157-3 clarifies the application of FAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP FAS 157-3 shall be effective upon issuance, including prior periods for which financial statements have not been issued. Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate (FAS 154, *Accounting Changes and Error Corrections*). The disclosure provisions of FAS 154 for a change in accounting estimate are not required for revisions resulting from a change in valuation technique or its application. For additional information, see Note 24 — Fair Value of Financial Instruments and Risk Management.

3. Significant Acquisitions in 2007

From April through August 2007, Neft-Aktiv LLC, the Company's wholly owned subsidiary, won a number of auctions for the sale of certain assets of Yukos Oil Company following the bankruptcy proceedings of Yukos Oil Company. The acquired assets included movable and immovable properties, as well as equity interests in enterprises engaged in exploration and production, refining and marketing, service and maintenance companies.

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

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

Based on the purchase price allocation, total goodwill in the amount of US$ 5.06 billion is attributed primarily to the refinery, marketing and distribution segment (US$ 3.61 billion), as well as to the exploration and production segment (US$ 1.45 billion). Both segments are expected to benefit from the synergies of the acquisitions. Included in the exploration and production segment is goodwill in the amount of US$ 743 million related to OJSC Tomskneft VNK and certain other assets, 50% interests of which were sold in December 2007.

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

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

	Final purchase price allocation
ASSETS	
Current assets:	
Cash and cash equivalents	1,185
Short-term investments	647
Accounts receivable	3,296
Inventories	860
Prepayments and other current assets	548
Total current assets	**6,536**
Long-term investments	137
Property, plant and equipment	14,267
Intangible assets	683
Deferred tax assets	248
Other non-current assets	241
Total non-current assets	**15,576**
Total assets	**22,112**

3. Significant Acquisitions in 2007 (continued)

	Final purchase price allocation
LIABILITIES	
Accounts payable	1,228
Short-term loans and borrowings and current portion of long-term debt	2,522
Income and other tax liabilities	528
Deferred tax liabilities	237
Other current liabilities	380
Total current liabilities	**4,895**
Asset retirement obligations	908
Long-term debt	963
Deferred tax liabilities	2,641
Other non-current liabilities	193
Total non-current liabilities	**4,705**
Total liabilities	**9,600**
Total net assets acquired	**12,512**
Minority interest	**(8)**
Purchase price	**17,563**
Goodwill	**5,059**

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

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

The Company has not made any adjustments of purchase price allocation to the fair value of assets acquired and liabilities assumed after June 30, 2008.

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

4. Other Acquisitions

Acquisition of Oil Product Retail Networks

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

4. Other Acquisitions (continued)

Acquisition of Oil Product Retail Networks (continued)

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

	Final purchase price allocation
Current assets	27
Non-current assets	166
Total assets	193
Current liabilities	25
Non-current liabilities	39
Total liabilities	**64**
Total net assets acquired	**129**
Minority interest	**(4)**
Purchase price	**155**
Goodwill	**30**

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

5. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	September 30, 2008 (unaudited)	**December 31, 2007**
Cash on hand and in bank accounts in RUB	**562**	474
Cash on hand and in bank accounts in foreign currencies	**561**	111
Deposits	**9**	378
Other	**59**	35
Total cash and cash equivalents	**1,191**	998

The Company's deposits are denominated primarily in RUB.

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

6. Short-term Investments

Short-term investments comprise the following:

	September 30, 2008 (unaudited)	December 31, 2007
Short-term loans granted	**3**	4
Loans to related parties	**10**	25
Promissory notes held-to-maturity	**124**	123
Trading securities		
Promissory notes	**6**	1
State and corporate bonds	**126**	149
Other	**3**	4
Available-for-sale securities	**25**	27
Bank deposits	**214**	5
Total short-term investments	**511**	338

7. Accounts Receivable, Net

Accounts receivable comprise the following:

	September 30, 2008 (unaudited)	December 31, 2007
Trade receivables	**3,517**	3,812
Value-added tax receivable	**2,106**	4,029
Other taxes	**633**	499
Banking loans to customers	**1,148**	996
Acquired receivables	**92**	140
Other	**537**	381
Less: allowance for doubtful accounts	**(73)**	(72)
Total accounts receivable, net	**7,960**	9,785

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

In the third quarter of 2008, the Company legally set off value-added tax (VAT) receivables against current tax liabilities (see Note 17) and received cash. The total VAT recovered amounted to RUB 12.8 billion (US$ 507 million at the CBR official exchange rate as of September 30, 2008).

8. Inventories

Inventories comprise the following:

	September 30, 2008 (unaudited)	December 31, 2007
Materials and supplies	**602**	503
Crude oil and gas	**617**	516
Petroleum products	**1,071**	907
Total inventories	**2,290**	1,926

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

9. Prepayments and Other Current Assets

Prepayments and other current assets comprise the following:

	September 30, 2008 (unaudited)	December 31, 2007
Prepayments to suppliers	**540**	637
Prepayments to customs brokers	**470**	166
Insurance prepayments	**14**	21
Customs	**533**	814
Other	**94**	93
Total prepayments and other current assets	**1,651**	1,731

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

10. Long-Term Investments

Long-term investments comprise the following:

	September 30, 2008 (unaudited)	December 31, 2007
Equity method investments		
OJSC Tomskneft VNK	**1,601**	1,419
Polar Lights Company LLC	**167**	153
JV Rosneft-Shell Caspian Ventures Limited	**29**	27
OJSC Daltransgaz	**47**	49
OJSC Verkhnechonskneftegaz	**221**	222
CJSC Vlakra	**109**	108
OJSC Kubanenergo	**94**	102
OT Belokamenka LLC	**2**	2
Other	**213**	208
Total equity method investments	**2,483**	2,290
Available-for-sale securities		
Russian government bonds	**–**	1
OJSC TGK-11	**14**	43
Long-term promissory notes	**5**	7
Held-to-maturity securities		
Long-term loans granted	**2**	3
Long-term loans to equity investees	**498**	279
Cost method investments	**14**	19
Other	**1**	4
Total long-term investments	**3,017**	2,646

10. Long-Term Investments (continued)

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

		Share in income/(loss) of equity investees	
	Participation interest (percentage) as of September 30, 2008	**Nine months ended September 30, 2008 (unaudited)**	**Nine months ended September 30, 2007 (unaudited)**
Polar Lights Company LLC	**50.00**	**53**	20
OJSC Verkhnechonskneftegaz	**25.94**	**(14)**	(7)
JV Rosneft-Shell Caspian Ventures Limited	**51.00**	**2**	1
OJSC Tomskneft VNK	**50.00**	**182**	–
OJSC Daltransgaz	**25.00**	**(2)**	–
Other	**various**	**(15)**	(9)
Total equity share		**206**	5

11. Property, Plant and Equipment

Property, plant and equipment comprise the following:

	Cost		Accumulated depreciation		Net carrying amount	
	September 30, 2008 (unaudited)	**December 31, 2007**	**September 30, 2008 (unaudited)**	**December 31, 2007**	**September 30, 2008 (unaudited)**	**December 31, 2007**
Exploration and production	**53,589**	48,416	**(10,633)**	(8,437)	**42,956**	39,979
Refining, marketing and distribution	**12,507**	12,906	**(3,120)**	(2,372)	**9,387**	10,534
Other activities	**2,276**	1,512	**(452)**	(322)	**1,824**	1,190
Total property, plant and equipment	**68,372**	62,834	**(14,205)**	(11,131)	**54,167**	51,703

12. Goodwill and Intangible Assets

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

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

	Cost		Accumulated amortization		Net carrying amount	
	September 30, 2008 (unaudited)	**December 31, 2007**	**September 30, 2008 (unaudited)**	**December 31, 2007**	**September 30, 2008 (unaudited)**	**December 31, 2007**
Land leasehold rights	**718**	274	**(45)**	–	**673**	274
Other	**13**	12	–	(1)	**13**	11
Total intangible assets	**731**	286	**(45)**	(1)	**686**	285

13. Other Non-current Assets

Other non-current assets comprise the following:

	September 30, 2008 (unaudited)	December 31, 2007
Advance payment in favor of Factorias Vulcano S.A.	**260**	233
Advances paid for capital construction	**780**	610
Debt issue costs	**120**	40
Long-term VAT receivable	**129**	85
Prepaid insurance	**17**	15
Long-term receivables (Note 22)	**9**	51
Other	**132**	63
Total other non-current assets	**1,447**	1,097

14. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities comprise the following:

	September 30, 2008 (unaudited)	December 31, 2007
Trade accounts payable	**1,987**	2,034
Salary and other benefits payable	**420**	286
Advances received	**473**	568
Dividends payable	**541**	2
Banking customer accounts	**842**	818
Accrued expenses	**124**	158
Other	**203**	156
Total accounts payable and accrued liabilities	**4,590**	4,022

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

15. Short-Term Loans and Long-Term Debt

Short-term loans and borrowings comprise the following:

	September 30, 2008 (unaudited)	December 31, 2007
Bank loans – foreign currencies	**25**	10,352
Bank loans – RUB denominated	**66**	51
Customer deposits – foreign currencies	**33**	20
Customer deposits – RUB denominated	**303**	291
Promissory notes payable	**25**	50
Promissory notes payable – Yukos related	**835**	904
Borrowings – RUB denominated	**493**	234
Borrowings – RUB denominated – Yukos related	**744**	728
Repurchase obligation	**1,884**	–
	4,408	12,630
Current portion of long-term debt	**4,007**	2,920
Total short-term loans and borrowings and current portion of long-term debt	**8,415**	15,550

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

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

In March-May 2007, the Company obtained bridge financing from a consortium of international banks in the total amount of US$ 22.0 billion to finance acquisitions (see Note 3). These bridge loans were fully repaid or refinanced by September 30, 2008.

Customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary bank, denominated in RUB and foreign currencies. Customer deposits denominated in RUB bear an interest rate ranging from 0.1% p.a. to 13.1% p.a. Customer deposits denominated in foreign currencies bear an interest rate ranging from 0.1% p.a. to 9% p.a.

Promissory notes are primarily payable on demand. The promissory notes bear interest rates ranging from 5.5% to 9% p.a. The promissory notes are recorded at amortized cost.

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

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

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

In June 2008, the Group sold 412.86 million treasury shares of Rosneft to a syndicate of international banks for US$ 2.35 billion cash under a repurchase agreement. The Company has a right and obligation to repurchase the shares within one year. The repurchase obligation carries an interest of 5.76% p.a. In accordance with the repurchase agreement, this transaction was accounted for in the consolidated balance sheet as secured financing. In the third quarter 2008, as a result of margin calls Rosneft transferred an additional 82.07 million treasury shares as collateral and paid US$ 0.5 billion cash that was settled with repurchase obligation as of September 30, 2008. As of September 30, 2008 the repurchase obligation (without accrued interest) amounted to US$ 1.85 billion.

Long-term debt comprises the following:

	September 30, 2008 (unaudited)	**December 31, 2007**
Bank loans – foreign currencies	**12,151**	9,611
Bank loans raised for funding the acquisition of OJSC Yuganskneftegaz – US$ denominated	**2,923**	3,737
Borrowings – US$ denominated	**10**	12
Borrowings – RUB denominated	**21**	20
Borrowings – RUB denominated – Yukos related	**–**	12
Customer deposits – foreign currencies	**8**	10
Customer deposits – RUB denominated	**130**	146
Bonds issued by subsidiary bank – RUB denominated	**23**	24
Promissory notes payable	**56**	50
Promissory notes payable – Yukos related	**1,059**	1,021
	16,381	14,643
Current portion of long-term debt	**(4,007)**	(2,920)
Total long-term debt	**12,374**	11,723

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

Rosneft received a syndicated 5-year loan bearing an interest rate of London Interbank Offered Rate ("LIBOR") plus 0.95% in the amount of US$ 2.97 billion in February 2008 and US$ 425 million in April 2008. This loan is secured by oil export contracts.

Rosneft also received a syndicated 5-year loan bearing an interest rate of LIBOR plus 1.25% in the amount of US$ 2.85 billion in July 2008 and US$ 350 million in September 2008. This loan is secured by oil export contracts.

The interest rates on the Company's long-term bank loans denominated in foreign currencies range from 4.35% to 7.5% p.a. These loans include inter-bank credits obtained by Rosneft subsidiary banks. Weighted average interest rates on these loans were 4.77% and 5.22% (LIBOR plus 0.84% and also LIBOR plus 0.62%) as of September 30, 2008 and December 31, 2007, respectively. These bank loans are primarily secured by contracts for the export of crude oil.

As of September 30, 2008, the bank loans raised for funding the acquisition of OJSC Yuganskneftegaz represent a long-term loan obtained through a government-owned bank at a rate of LIBOR plus 0.7% p.a. repayable in equal monthly installments. It is scheduled to be fully repaid in 2011. This loan is secured by the Company’s receivables under a long-term contract for the supply of crude oil (see Note 22).

Customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary bank, denominated in RUB and foreign currencies. The RUB-denominated deposits bear interest rates ranging from 0.1% p.a. to 13% p.a. Deposits denominated in foreign currencies bear interest rates of 0.1%- 9% p.a.

Promissory notes payable include promissory notes that bear interest rates ranging from 8% to 9.5% p.a. The promissory notes are recorded at amortized cost.

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

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

The Company is obliged to comply with a number of restrictive financial and other covenants contained within its loan agreements. Restrictive covenants include maintaining certain financial ratios.

As a result of the Company's acquisition of OJSC Yuganskneftegaz in December 2004, and the resulting debt incurred and assets and liabilities, including contingent liabilities, consolidated, the Company was not in compliance with various financial and other covenants of existing loan agreements as of December 31, 2004.

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

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

- redeem, secure, discharge in full or restructure (and comply with any restructuring plans once it is agreed upon) all OJSC Yuganskneftegaz's tax liabilities by January 3, 2008;
- pay any arbitration award relating to Moravel Litigation (see Note 22) or the Yukos Capital S.a.r.l. Litigation if any such arbitration award is granted by a court of the Russian Federation, within the time frame provided for such payment under Russian Law.

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

As of September 30, 2008, the Company is in compliance with all restrictive financial and other covenants contained within its loan agreements.

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

	(Unaudited)
Until December 31, 2008	**852**
2009	**5,448**
2010	**4,599**
2011	**2,695**
2012	**2,006**
2013 and after	**781**
Total long-term debt	**16,381**

16. Shareholders' Equity

On June 5, 2008, the annual general shareholders' meeting approved dividends on the Company's common shares for 2007 in the amount of RUB 16,957 million or RUB 1.60 per share, which corresponds to US$ 712 million or US$ 0.07 per share at the CBR official exchange rate at the date of declaring the dividends. US$ 650 million of the above related to outstanding shares. RUB 13,597 million (US$ 539 million at the CBR official exchange rate as of September 28, 2008) is unpaid as of September 30, 2008.

17. Income and Other Tax Liabilities

Income and other tax liabilities comprise the following:

	September 30, 2008 (unaudited)	December 31, 2007
Mineral extraction tax	**1,108**	1,084
Value-added tax	**338**	214
Excise tax	**174**	184
Personal income tax	**21**	24
Property tax	**50**	23
Income tax	**261**	651
Other	**141**	166
Total income and other tax liabilities	**2,093**	2,346

Tax liabilities above include the respective current portion of restructured tax liabilities.

18. Export Customs Duty

Export customs duty comprises the following:

	Three months ended September 30, 2008 (unaudited)	Three months ended September 30, 2007 (unaudited)	Nine months ended September 30, 2008 (unaudited)	Nine months ended September 30, 2007 (unaudited)
Oil and gas sales				
Export customs duty	**5,391**	2,812	**13,506**	7,287
Petroleum products sales and processing fees				
Export customs duty	**1,649**	693	**3,819**	1,410
Total revenue related taxes	**7,040**	3,505	**17,325**	8,697

19. Taxes

Taxes other than income tax comprise the following:

	Three months ended September 30, 2008 (unaudited)	Three months ended September 30, 2007 (unaudited)	Nine months ended September 30, 2008 (unaudited)	Nine months ended September 30, 2007 (unaudited)
Mineral extraction tax	**3,928**	2,585	**11,011**	6,160
Excise tax	**273**	272	**884**	583
Property tax	**53**	60	**184**	142
Other	**179**	70	**479**	337
Total taxes other than income tax	**4,433**	2,987	**12,558**	7,222

Income tax expenses comprise the following:

	Three months ended September 30, 2008 (unaudited)	Three months ended September 30, 2007 (unaudited)	Nime months ended September 30, 2008 (unaudited)	Nine months ended September 30, 2007 (unaudited)
Current income tax expense	**1,170**	713	**3,978**	2,301
Deferred income tax expense / (benefit)	**(114)**	(139)	**(616)**	894
Total income tax expense	**1,056**	574	**3,362**	3,195

19. Taxes (continued)

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

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

The following table shows a reconciliation of the beginning and ending unrecognized tax benefits for the nine months ended September 30, 2008:

	Nine months ended September 30, 2008 (unaudited)
Unrecognized tax benefits at January 1, 2008	**18**
Increase of tax positions of prior years	**33**
Decrease of unrecognized tax benefits relating to settlements with taxing authorities	**(33)**
Unrecognized tax benefits at September 30, 2008	**18**

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

20. Other Non-Current Liabilities

Other non-current liabilities comprise the following:

	September 30, 2008 (unaudited)	**December 31, 2007**
Restructured tax liabilities	**1,928**	2,146
Long-term lease obligations	**110**	147
Deferred income	**47**	115
Liabilities to municipalities under amicable agreements	**56**	48
Other	**30**	29
Total other non-current liabilities	**2,171**	2,485

In February and March 2008 the Company received signed resolutions of the Government of the Russian Federation and relevant regional and local authorities regarding the restructuring of the respective tax liabilities. Under the tax restructuring plan, the outstanding tax liabilities shall be repaid quarterly within five years starting from March 2008. The Company's payments excluding interest amounted to RUB 1,162 million (US$ 45.6 million at the CBR official exchange rate as of the payment dates) and RUB 3,486 million (US$ 144.3 million at the CBR official exchange rate as of the payment dates) for the three and nine months ended September 30, 2008, respectively.

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

21. Related Party Transactions

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

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

	Nine months ended September 30, 2008 (unaudited)	**Nine months ended September 30, 2007 (unaudited)**
Revenues		
Oil and gas sales	**124**	56
Sales of petroleum products and processing fees	**283**	113
Support services and other revenues	**46**	10
	453	179
Costs and expenses		
Production and operating expenses	**156**	78
Pipeline tariffs and transportation costs	**2,591**	2,710
Other expenses	**57**	14
	2,804	2,802
Other operations		
Proceeds from short-term and long-term debt	**5**	5,650
Repayment of short-term and long-term debt	**2,390**	6,974
Deposits placed	**125**	–
Deposits paid	**92**	86
Interest expense	**148**	249
Interest income	**45**	8
Banking fees	**9**	4

	September 30, 2008 (unaudited)	**December 31, 2007**
Assets		
Cash and cash equivalents	**235**	139
Accounts receivable	**134**	106
Prepayments and other current assets	**429**	239
Short-term and long-term investments	**121**	90
	919	574
Liabilities		
Accounts payable	**272**	16
Short-term and long-term debt (including interest)	**2,928**	5,322
	3,200	5,338

21. Related Party Transactions (continued)

Total amounts of transactions with related parties (except for those controlled by the Government of the Russian Federation), which are primarily equity investees and joint ventures, for each of the reporting periods ending September 30, as well as related party balances as of September 30, 2008 and December 31, 2007 are provided in the tables below:

	Nine months ended September 30, 2008 (unaudited)	Nine months ended September 30, 2007 (unaudited)
Revenues		
Oil and gas sales	**35**	23
Sales of petroleum products and processing fees	**192**	116
Support services and other revenues	**256**	79
	483	218
Costs and expenses		
Production and operating expenses	**129**	3
Purchase of oil and petroleum products	**573**	590
Other expenses	**203**	65
	905	658
Other operations		
Sale of short-term and long-term investments		1
Acquisition of short-term and long-term investments	**14**	8
Proceeds from short-term and long-term debt	**498**	–
Repayment of short-term and long-term debt	**223**	7
Borrowings issued	**116**	40
Repayment of borrowings issued	**149**	24
Interest expense	**2**	3
Interest income	**7**	42
Dividends received	**41**	19

	September 30, 2008 (unaudited)	December 31, 2007
Assets		
Accounts receivable	**284**	201
Prepayments and other current assets	**6**	16
Short-term and long-term investments	**213**	297
	503	514
Liabilities		
Accounts payable	**567**	941
Short-term and long-term debt (including interest)	**483**	235
	1,050	1,176

22. Commitments and Contingencies

Russian Business Environment

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.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Company and its counterparties, which could affect the Company’s financial position, results of operations and business prospects.

While management believes it is taking appropriate measures to support the sustainability of the Company’s business in the current circumstances, further market deterioration could negatively affect the Company’s consolidated results and financial position in a manner not currently determinable.

Taxation

Legislation and regulations regarding taxation in Russia continue to evolve. Various legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local, regional and national tax authorities. Instances of inconsistent opinions are not unusual.

The current regime of penalties and interest related to reported and discovered violations of Russia’s laws, decrees and related regulations is severe. Interest and penalties are levied when an understatement of a tax liability is discovered. As a result, the amounts of penalties and interest can be significant in relation to the amounts of unreported taxes.

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

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

The Russian transfer pricing rules are vaguely drafted, leaving wide scope for interpretation by Russian tax authorities and courts. Due to the uncertainties in interpretation of transfer pricing legislation, the tax authorities may challenge the Group’s prices and propose an adjustment. If such price adjustments are upheld by the Russian courts and implemented, it could have an adverse effect on the Group’s financial condition and results of operations. The Company’s management believes that such transfer pricing related income tax positions taken by the Company are sustainable and will not have any significant negative impact on the Company’s financial statements. The Company provides finance for operations of its subsidiaries by various means which may lead to certain tax risks. The Company’s management believes that the related tax positions are sustainable and will not have any significant negative impact on the Company's consolidated financial position or results of operations.

22. 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 decline reimbursement of VAT paid to suppliers in the amount of RUB 9,262 million (US$ 367 million at the CBR official exchange rate as of September 30, 2008). Claims of RUB 4,421 million (US$ 175 million at the CBR official exchange rate as of September 30, 2008) have been upheld by various courts, however they are subject to further appeal by the tax authorities. Claims of RUB 836 million (US$ 33 million at the CBR official exchange rate as of September 30, 2008) have not been upheld by the courts, however the Company has the right and intends to appeal. The remaining claims of RUB 4,005 million (US$ 159 million at the CBR official exchange rate as of September 30, 2008) are still being heard in the courts.

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

As of September 30, 2008, the Company's subsidiaries, which were acquired at the auctions described in Note 3, have various disputes with tax authorities for the total amount of US$ 14 million, US$ 1 million of which were recorded within income and other tax liabilities.

Capital Commitments

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

Environmental Matters

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

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

Legislation that regulates environmental protection in the Russian Federation is evolving, and the Company evaluates its liabilities in accordance therewith.

Currently it is not possible to reasonably estimate the liabilities of the Company which may be incurred should the legislation be amended.

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

22. Commitments and Contingencies (continued)

Social Commitments

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

The Company incurred US$ 41 million and US$ 73 million in social infrastructure and similar expenses for the first nine months of 2008 and 2007, respectively. These expenses are presented as other expenses in the consolidated statement of income and comprehensive income.

Pension Plans

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

The Company contributes to corporate pension fund to finance non-state pensions of its employees. These payments are made based on the defined contribution plan. For the first nine months of 2008 and 2007, the Company made contributions to the non-state corporate pension fund amounting to US$ 68 million and US$ 48 million, respectively.

Insurance

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

As of September 30, 2008 and December 31, 2007, the amount of coverage of assets under such insurance amounted to US$ 18,286 million and US$ 11,706 million, respectively.

Guarantees and Indemnity

As of September 30, 2008, the Company has provided guarantees for certain debt agreements primarily of its subsidiaries. In accordance with the debt agreements, the Company is obliged to perform on the guarantee and to pay the bank all amounts of outstanding guaranteed liabilities, including interest.

The Company cannot substitute guarantees issued by any novation agreement or mutual offset. The Company’s obligations under guarantees issued are valid in case of any change in the loan agreements. After the full payment and settlement of all obligations under the guarantees, the Company has the right to subrogate its respective part of all bank claims against the debtor in accordance with the loan agreements. In the event the Company makes payments under guarantees issued, it has a right to claim the amounts paid from the debtor.

In January 2007, the Company signed a guarantee agreement in respect of all the obligations of CJSC Vankorneft per an irrevocable documentary letter of credit for the amount of US$ 62 million and a period of up to 730 days. In the event of default, as specified in the agreement, the bank may request the Company to place a deposit in the amount sufficient to cover all of the Company’s existing and potential obligations payable during the period of validity of such letter of credit. As of September 30, 2008, the amount outstanding under the letter of credit was US$ 18 million.

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

22. Commitments and Contingencies (continued)

Guarantees and Indemnity (continued)

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

Litigation, Claims and Assessments

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

ICCA rulings were cancelled by a Russian court. An Amsterdam Court ruled against enforcement of the said ICCA decisions in the Netherlands (this ruling is being currently appealed by Yukos Capital S.a.r.l.). Additionally, in 2007 claims were filed to declare the loan agreements null and void. The court hearings for these claims are planned for the first half of 2009. The Company believes that payments in excess of US$ 744 million (see Note 15) are possible, but their amount can not be reasonably estimated.

The Company and its subsidiary are plaintiffs in arbitral proceedings against OJSC Yakutgazprom, OJSC Sakhaneftegaz, OJSC Lenaneftegaz for the recovery of loans and guarantees of indemnity in the amount of RUB 2,508 million (US$ 99 million at the CBR official exchange rate as of September 30, 2008). The respective accounts receivable in the amount of US$ 42 million (net of allowance in the amount of US$ 32 million) are recorded as long-term receivables in the consolidated balance sheet (see Note 13). The remaining balance of US$ 25 million is included in acquired receivables (see Note 7). No allowance was established against this amount as of September 30, 2008 as its collectability is ensured.

The Company is also a plaintiff in arbitral proceedings against OJSC TRUST Investment Bank for the repayment under a deposit agreement, which is recorded in the consolidated balance sheet in the amount of RUB 1,802 million (US$ 71 million at the CBR official exchange rate as of September 30, 2008). On June 30, 2008, the court of first instance upheld the full amount of claims filed by OJSC Oil Company Rosneft against OJSC TRUST Investment Bank, however the court decision was appealed by the defendant. Next hearing on the proceeding for the appellate appeal has not been scheduled yet. This amount is recorded in the consolidated balance sheet as the acquired receivables (see Note 7). The Company believes that the maximum amount of possible loss is limited by the amounts currently recorded in the consolidated balance sheet.

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

22. Commitments and Contingencies (continued)

Licence Agreements

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

Oil Supplies

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

23. Segment Information

Presented below is information about the Company's operating segments in accordance with SFAS 131, *Disclosures about Segments of an Enterprise and Related Information.* The Company determines its operating segments based on the nature of their operations. The performance of these operating segments is assessed by management on a regular basis. The exploration and production segment is engaged in field exploration and development and production of crude oil and natural gas. The refinery, marketing and distribution segment is engaged in processing crude oil and other hydrocarbons into petroleum products, as well as purchasing, sale and transportation of crude oil and petroleum products. Corporate assets are allocated between exploration and production and refining, marketing and distribution in proportion to sales of these segments. Drilling services, construction services, banking and finance services, and other activities are combined in the "All other" category. 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, 2008:

	Exploration and production (unaudited)	**Refinery, marketing and distribution (unaudited)**	**All other (unaudited)**	***Total elimination* (unaudited)**	**Consolidated (unaudited)**
Revenues from external customers	**481**	**19,642**	**567**	**–**	**20,690**
Intersegmental revenues	**2,866**	**995**	**1,367**	**(5,228)**	**–**
Total revenues	**3,347**	**20,637**	**1,934**	**(5,228)**	**20,690**
Operating expenses and cost of purchased oil and petroleum products	**541**	**1,204**	**249**	**–**	**1,994**
Depreciation, amortization and depletion of reserves	**818**	**167**	**66**	**–**	**1,051**
Operating income	**1,851**	**6,215**	**1,408**	**(5,228)**	**4,246**
Total other expenses, net					**297**
Income before tax					**4,543**

23. Segment Information (continued)

Operating segments for three months ended September 30, 2007:

	Exploration and production (unaudited)	Refinery, marketing and distribution (unaudited)	All other (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 revenues	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, amortization and depletion of reserves	782	110	9	–	901
Operating income	1,213	5,152	498	(3,760)	3,103
Total other income, net					(627)
Income before tax					2,476

Operating segments for nine months ended September 30, 2008:

	Exploration and production (unaudited)	Refinery, marketing and distribution (unaudited)	All other (unaudited)	*Total elimination* (unaudited)	Consolidated (unaudited)
Revenues from external customers	**1,557**	**55,561**	**1,074**	**–**	**58,192**
Intersegmental revenues	**8,238**	**2,531**	**3,791**	**(14,560)**	**–**
Total revenues	**9,795**	**58,092**	**4,865**	**(14,560)**	**58,192**
Operating expenses and cost of purchased oil and petroleum products	**1,769**	**3,281**	**591**	**–**	**5,641**
Depreciation, amortization and depletion of reserves	**2,424**	**523**	**134**	**–**	**3,081**
Operating income	**4,906**	**20,683**	**2,866**	**(14,560)**	**13,895**
Total other expenses, net					**(132)**
Income before tax					**13,763**
Total assets as of September 30, 2008	**44,735**	**21,819**	**11,618**	**–**	**78,172**

Operating segments for nine months ended September 30, 2007:

	Exploration and production (unaudited)	Refinery, marketing and distribution (unaudited)	All other (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 revenues	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, amortization and depletion of reserves	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 tax					13,120
Total assets as of December 31, 2007	41,888	25,445	7,472	–	74,805

23. Segment Information (continued)

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

	Three months ended September 30, 2008 (unaudited)	Three months ended September 30, 2007 (unaudited)	Nine months ended September 30, 2008 (unaudited)	Nine months ended September 30, 2007 (unaudited)
Oil and gas sales				
Export sales of crude oil – Europe and other directions	**7,282**	5,256	**21,716**	14,005
Export sales of crude oil – Asia	**2,259**	1,565	**6,605**	4,249
Export sales of crude oil – CIS	**545**	639	**1,883**	1,469
Domestic sales of crude oil	**15**	17	**142**	446
Domestic sales of gas	**95**	85	**308**	240
Total oil and gas sales	**10,196**	7,562	**30,654**	20,409
Sales of petroleum products				
Export sales of petroleum products – Europe	**3,058**	1,859	**8,287**	3,701
Export sales of petroleum products – Asia	**2,026**	969	**5,624**	2,114
Export sales of petroleum products – CIS	**286**	79	**662**	165
Domestic sales of petroleum products and processing fees	**4,618**	2,958	**11,500**	5,757
Sales of petrochemical products	**58**	–	**332**	–
Total sales of petroleum products	**10,046**	5,865	**26,405**	11,737

24. Fair Value of Financial Instruments and Risk Management

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

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

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

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

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

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

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

	Fair value measurement as of September 30, 2008			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Current assets				
Trading securities	122	13	–	135
Available-for-sale investments	–	25	–	25
Non-current assets				
Available-for-sale investments	14	5	–	19
Total assets measured at fair value	**136**	**43**	**–**	**179**
Liabilities:				
Derivative financial instruments	–	(43)	–	(43)
Total liabilities measured at fair value	**–**	**(43)**	**–**	**(43)**

The market for a number of financial assets is not active. In accordance with requirements of FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active,* observable inputs of Level 2 were used to disclose fair value of such financial assets.

The Company, in connection with its current activities, is exposed to various financial risks, such as foreign currency risks, commodity price risk, interest rate risks and credit risks. The Company manages these risks and monitors its exposure on a regular basis.

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

The Company enters into contracts to economically hedge certain of its risks associated with increased interest expense accrued on loans received by the Company. Hedge accounting pursuant to SFAS 133 is not applied to these instruments.

In December 2007, the Company entered into 5-year interest rate swap contract with a notional amount of US$ 3 billion. Under the terms of the contract, a floating LIBOR rate may be converted into a certain fixed rate. The other party has a call option to terminate the deal. The fair value of the interest swap contract was recorded in the consolidated balance sheets as of September 30, 2008 and December 31, 2007 as other current liabilities in the amount of US$ 42.8 million and US$ 13.5 million, respectively. The change in fair value was recorded in the consolidated statement of income and comprehensive income for the nine months ended September 30, 2008 as a component of interest expense in the amount of US$ 29.3 million.

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

25. Subsequent Events

In October-November 2008, Rosneft secured short-term borrowings from state-controlled banks in the total amount of up to RUB 104 billion (US$ 3.8 billion at the CBR official exchange rate as of November 28, 2008) bearing interest rates from 10% to 14% p.a. and up to US$ 774 million bearing interest of LIBOR plus 5% p.a. RUB 50 billion (US$ 1.8 billion at the CBR official exchange rate as of November 28, 2008) of the RUR borrowings and US$ 313 million of the USD borrowings had been utilized as of November 28, 2008.

In October - November 2008, the Company met further margin calls in accordance with the repurchase agreement (see Note 15). As of November 28, 2008, the Company had pledged 494.93 million treasury shares and provided net cash margin of US$ 872 million, resulting in net debt under the repurchase agreement of US$ 1,032 million.

In October 2008, the Federal Antimonopoly Service ("FAS Russia") ruled that the Company violated certain antimonopoly regulations in relation to petroleum products trading. Russian antimonopoly law generally provides for significant fines and penalties for such violations. The Company believes that payments of fines are possible however their amount can not be reasonably estimated. The Company intends to appeal the ruling.