



ROSNEFT

O I L C O M P A N Y

OPEN JOINT STOCK COMPANY

OJSC Rosneft Oil Company

Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2007 and 2006

OJSC Rosneft Oil Company

Interim Condensed Consolidated Financial Statements

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OJSC Rosneft Oil Company

Consolidated Balance Sheets

(in millions of US dollars, except share amounts)

	Notes	March 31, 2007 (unaudited)	December 31, 2006
ASSETS			
Current assets:			
Cash and cash equivalents	4	\$ 1,626	\$ 505
Restricted cash		29	29
Short-term investments		418	460
Accounts receivable, net of allowance of US\$ 68 and US\$ 65, respectively		5,603	4,839
Inventories		918	905
Deferred tax assets		1,138	1,135
Prepayments and other current assets	13	1,324	1,589
Total current assets		11,056	9,462
Non-current assets:			
Long-term investments		594	568
Long-term bank loans granted, net of allowance of US\$ 8 and US\$ 6, respectively		152	110
Oil and gas properties, net	6	33,252	32,959
Property, plant and equipment, net		2,596	2,598
Construction-in-progress		375	388
Goodwill		161	161
Deferred tax assets		104	110
Prepayments and other non-current assets	5	2,075	434
Total non-current assets		39,309	37,328
Total assets		\$ 50,365	\$ 46,790
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 2,048	\$ 1,998
Short-term loans and current portion of long-term debt	7	7,954	6,427
Income and other tax liabilities		2,860	2,472
Deferred tax liabilities		11	17
Other current liabilities		21	20
Total current liabilities		12,894	10,934
Asset retirement obligations		815	748
Long-term debt	7	8,663	7,402
Deferred tax liabilities		5,381	5,446
Other non-current liabilities		153	160
Total non-current liabilities		15,012	13,756
Minority interest		226	225
Shareholders' equity:			
Common stock par value 0.01 RUB (shares issued and outstanding: 10,598 million as of March 31, 2007 and December 31, 2006)		20	20
Additional paid-in capital		11,352	11,352
Retained earnings		10,861	10,503
Total shareholders' equity		22,233	21,875
Total liabilities and shareholders' equity		\$ 50,365	\$ 46,790

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

OJSC Rosneft Oil Company
Consolidated Statements of Income

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

	Notes	Three months ended March 31, 2007 (unaudited)	Three months ended March 31, 2006 (as restated) (unaudited)
Revenues			
Oil and gas sales	8, 12	\$ 5,638	\$ 5,039
Petroleum products and processing fees	8, 12	2,496	2,219
Support services and other revenues		86	69
Total		8,220	7,327
Costs and expenses			
Production and operating expenses		542	443
Cost of purchased oil, gas, petroleum products and refining costs		480	288
Selling, general and administrative expenses		186	142
Pipeline tariffs and transportation costs		939	735
Exploration expenses		35	26
Depreciation, depletion and amortization		673	384
Accretion expense		11	8
Taxes other than income tax	14	1,916	1,609
Export customs duty	8	2,678	2,164
Total		7,460	5,799
Operating income		760	1,528
Other income/(expenses)			
Interest income		37	38
Interest expense		(201)	(206)
Loss on disposal of property, plant and equipment		(12)	(4)
Gain on disposal of investments		4	–
Equity share in affiliates' (loss)/profits		(11)	8
Dividends and income from joint ventures		1	1
Other expenses, net		(51)	(26)
Foreign exchange loss		(47)	(159)
Total other income/(expenses)		(280)	(348)
Income before income tax and minority interest		480	1,180
Income tax expense	9	(121)	(335)
Income before minority interest		359	845
Minority interest in subsidiaries' earnings		(1)	(43)
Net income		\$ 358	\$ 802
Earnings per share (in US\$) – basic and diluted		\$ 0.03	\$ 0.09
Weighted average number of shares outstanding (millions)		10,598	9,092

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

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

	Notes	Three months ended March 31, 2007 (unaudited)	Three months ended March 31, 2006 (as restated) (unaudited)
Operating activities			
Net income		\$ 358	\$ 802
Reconciliation of net income to net cash provided by operating activities:			
Effect of foreign exchange		43	135
Depreciation, depletion and amortization		673	384
Dry well expenses		16	1
Loss on disposal of property, plant and equipment		12	4
Deferred income tax		(115)	(78)
Accretion expense		11	8
Equity share in affiliates' loss /(profits)		11	(8)
Gain on disposal of investments		(4)	–
Acquisition of trading securities		(165)	(6)
Proceeds from sale of trading securities		183	6
Increase in allowance for doubtful accounts and bank loans granted		5	1
Minority interests in subsidiaries' earnings		1	43
Changes in operating assets and liabilities net of acquisitions:			
Increase in accounts receivable		(758)	(110)
Increase in inventories		(13)	(97)
Increase in restricted cash		–	(1)
Decrease/(increase) in prepayments and other current assets		267	(47)
Increase in prepayments and other non-current assets		(35)	(14)
(Increase)/decrease in long-term bank loans granted		(44)	15
Increase in interest payable		2	25
Increase in accounts payable and accrued liabilities		64	231
Increase in income and other tax liabilities		388	118
(Decrease)/increase in other current and non-current liabilities		(6)	1
Net cash provided by operating activities		894	1,413
Cash flows from investing activities			
Capital expenditures		(1,033)	(590)
Acquisition of licences		–	(258)
Proceeds from disposals of property, plant and equipment		7	4
Acquisition of short-term investments		(11)	(69)
Proceeds from sale of short-term investments		–	4
Acquisition of entities and additional shares in subsidiaries, net of cash acquired		(8)	(105)
Proceeds from sale of long-term investments		9	7
Acquisition of debt receivable		–	(463)
Acquisition of long-term investments		(10)	(36)
Net cash used in investing activities		\$ (1,046)	\$ (1,506)

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

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

	Notes	Three months ended March 31, 2007 (unaudited)	Three months ended March 31, 2006 (as restated) (unaudited)
Cash flows from financing activities			
Proceeds from short-term debt		\$ 5,284	\$ 99
Repayment of short-term debt		(2,061)	(518)
Proceeds from long-term debt		42	669
Repayment of long-term debt		(490)	(851)
Prepayment for acquisition of treasury shares and promissory notes	5	(1,503)	–
Dividends paid to minority shareholders in subsidiaries		(1)	–
Net cash, provided by/(used in) financing activities		1,271	(601)
Increase/(decrease) in cash and cash equivalents		1,119	(694)
Cash and cash equivalents at beginning of period		505	1,173
Effect of foreign exchange on cash and cash equivalents		2	10
Cash and cash equivalents at end of period		\$ 1,626	\$ 489
Supplementary disclosures of cash flow information			
Cash paid for interest (net of amount capitalized)		\$ 158	\$ 166
Cash paid for income taxes		\$ 288	\$ 374

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

OJSC Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2007 and 2006

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

1. Nature of Operations

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

2. Significant Accounting Policies

Form and Content of the Interim Condensed Consolidated Financial Statements

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

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

The results of operations for three months ended March 31, 2007 may not be indicative of the results of operations for the full year. These interim condensed consolidated financial statements contain information updated through June 15, 2007.

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

OJSC Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

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

As previously reported in the financial statements for the three months ended March 31, 2006, 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 EITF 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*. During 2006, a review was undertaken into the presentation of certain of these transactions where the ultimate customer was an affiliate of the crude oil supplier. It was concluded that such transactions should be reported on a net basis. The effect of this restatement on the first quarter of 2006 amounted to a reduction in Oil and gas sales in the consolidated statement of income by US\$ 174 million and a reduction of Cost of purchased oil, gas, petroleum products and refining costs in the consolidated statement of income by US\$ 174 million with no effect on net income.

Certain other amounts in the consolidated statements of income and cash flows for three months ended March 31, 2006 were reclassified to conform to the current period presentation.

The following is a summary of reclassifications made in the consolidated statement of income for three months ended March 31, 2006 as a result of the restatement and reclassifications discussed above:

	Three months ended March 31, 2006 as previously reported (unaudited)	Adjustments and reclassifications	Three months ended March 31, 2006 as restated (unaudited)
Oil and gas sales	\$ 5,213	\$ (174)	\$ 5,039
Petroleum products and processing fees	2,219	–	2,219
Support services and other revenues	84	(15)	69
Total sales	7,516	(189)	7,327
Production and operating expenses	421	22	443
Cost of purchased oil, gas, petroleum products and refining costs	541	(253)	288
Selling, general and administrative expenses	167	(25)	142
Pipeline tariffs and transportation costs	693	42	735
Exploration expenses	35	(9)	26
Depreciation, depletion and amortization	384	–	384
Accretion expense	8	–	8
Taxes other than income tax	1,574	35	1,609
Export customs duty	2,168	(4)	2,164
Total	5,991	(192)	5,799
Operating income	1,525	3	1,528
Total other income/(expenses)	(345)	(3)	(348)
Income before income tax and minority interest	\$ 1,180	\$ –	\$ 1,180

OJSC Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Management Estimates

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

Certain significant estimates and assumptions for the Company include: estimation of economically recoverable oil and gas reserves; rights to and recoverability and useful lives of long-term assets and investments; impairment of goodwill; allowances for doubtful accounts receivable; asset retirement obligations; legal and tax contingencies; environmental remediation obligations; recognition and disclosure of guarantees and other commitments; fair value measurements; ability to renew operating leases and to enter into new lease agreements; classification of certain debt amounts. Some of the most significant estimates are made in connection with OJSC Yuganskneftegaz. 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 average exchange rates for the period or exchange rates prevailing on transaction dates where practicable.

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

As of March 31, 2007, December 31, 2006, and as of March 31, 2006, the Central Bank of Russian Federation ("CBR") official rates of exchange were 26.01 rubles ("RUB"), 26.33 RUB and 27.76 RUB per US dollar, respectively. Average rates of exchange in the first three months of 2007 and 2006 were calculated as 26.31 RUB and 28.16 RUB per US dollar, respectively. As of June 15, 2007 the official rate of exchange was 26.05 RUB per US dollar.

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

Income Taxes

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

OJSC Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Derivative Instruments

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

Comprehensive Income

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

As of March 31, 2007, and 2006, there were no other comprehensive income items and, therefore, comprehensive income for the first three months of 2007 and 2006 equals net income.

Changes in Accounting Policies

Since January 1, 2007 the Company has applied Interpretation ("FIN") 48, *Accounting for Uncertainty in Income Taxes* while preparing the US GAAP financial statements. Income tax additionally accrued under the provisions of FIN 48 (if any) together with corresponding interest and penalties will be recognized in the consolidated statement of income in the Income tax expense line. Accrued liabilities for interest and penalties for income tax totalled US\$ 211 million as of January 1, 2007 and US\$ 249 million as of March 31, 2007.

As of January 1, 2007 the Company analyzed its tax positions for uncertainties affecting the recognition and measurement of tax positions. The adoption of FIN 48 had an insignificant impact on the financial statements of the Company. The Company had unrecognized tax benefits in the amount of RUB 890.1 million as of both January 1, 2007 and March 31, 2007 (US\$ 33.8 million as of January 1, 2007 and US\$ 34.2 million as of March 31, 2007). The total amount of unrecognized tax benefits that, if recognized, would affect the effective income tax rate is RUB 890.1 million as of both January 1, 2007 and March 31, 2007 (US\$ 33.8 million as of January 1, 2007 and US\$ 34.2 million as of March 31, 2007).

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

As discussed in the Note 11, the tax authorities are currently examining the Company's income tax returns for the years 2004-2006 (for the period up to September 30, 2006). There are no other tax years that remain subject to examination.

Recent Accounting Standards

In May 2007, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") FIN 39-1, *Amendment of FASB Interpretation No. 39*, to amend paragraph 10 of FASB Interpretation ("FIN") 39, *Offsetting of Amounts Related to Certain Contracts*, to permit a reporting entity that is party to a master netting arrangement to offset the receivable or payable recognized upon payment or receipt of cash collateral against the fair value amounts recognized against derivative instruments that had been offset under the same master netting arrangement in accordance with paragraph 10.

OJSC Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Recent Accounting Standards (continued)

FSP FIN 39-1 also amends paragraph 3 of FIN 39 to replace the terms, "conditional contracts" and "exchange contracts," with the broader term, "derivative contracts," as defined in SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*. FSP FIN 39-1 applies to fiscal years beginning after November 15, 2007, with early application permitted. The Company expects that FSP FIN 39-1 will not have a material impact on the Company's financial statements.

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

3. Acquisitions

In January 2007, the Company co-founded Truboprovodny Consortium Burgas-Alexandroupolis Limited. The other co-founders were OJSC Transneft and OJSC Gazprom. The Company has a 33.3% interest in this new entity and accounts for it using the equity method. The total amount of the Company's investment is RUB 3 million (US\$ 0.1 million at the CBR exchange rate as of the transaction date).

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 newly issued ordinary shares of OJSC Ohinskaya TETS. Following this acquisition the Company holds an 85.61% equity interest. OJSC Ohinskaya TETS is a combined heat and power station. One of the main consumers of OJSC Ohinskaya TETS's production is RN-Sakhalinmorneftegaz LLC, the Company's subsidiary. The primary reason for this acquisition is to improve electricity supply management. The purchase price was fully allocated to the fair values 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.

In January 2007, the Company bought 339,582 ordinary shares of additional share issue of OJSC Verhnechonskneftegaz paying 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.

OJSC Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (continued)

4. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	March 31, 2007 (unaudited)	December 31, 2006
Cash in hand and cash in bank – RUB	\$ 141	\$ 244
Cash in hand and cash in bank – foreign currencies	195	192
Deposits and other	1,290	69
Total cash and cash equivalents	\$ 1,626	\$ 505

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

As of March 31, 2007, Cash (Deposits and other) include a deposit in the amount of US\$ 1,113 million paid in March 2007 for participation in auctions for sales of OJSC Gazprom neft shares and other assets of Yukos Oil Company in April 2007. The deposit was subsequently returned to the Company following an unsuccessful bid.

5. Prepayments and Other Non-current Assets

As of March 31, 2007, Prepayments and other non-current assets includes a deposit in the amount of US\$ 1,503 million paid in March 2007 for participation in the auction for the sale of 1 billion ordinary shares of Rosneft (9.44% of share capital) and promissory notes of OJSC Yuganskneftegaz which were owned by Yukos Oil Company (see Note 14).

6. Oil and Gas Properties, Net

Oil and gas properties comprise the following:

	March 31, 2007 (unaudited)	December 31, 2006
Wells and related facilities	\$ 18,034	\$ 17,128
Mineral rights	19,356	19,356
Pipelines	1,645	1,627
Equipment under capital lease	23	26
Total cost	39,058	38,137
Less: accumulated depletion	(5,806)	(5,178)
Total oil and gas properties, net	\$ 33,252	\$ 32,959

Mineral rights includes costs to acquire unproved properties in the amount of US\$ 3,878 million as of March 31, 2007 and December 31, 2006. The Company plans to explore and develop the respective fields. The Company's management believes these costs are recoverable.

OJSC Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (continued)

7. Short-Term Loans and Long-Term Debt

Short-term loans and borrowings comprise the following:

	March 31, 2007	December 31,
	(unaudited)	2006
Bank loans – US\$ denominated	\$ 3,310	\$ 79
Bank loans – RUB denominated	487	2,517
Customer deposits – US\$ denominated	33	29
Customer deposits – RUB denominated	155	164
Promissory notes payable	806	771
Other	513	505
	5,304	4,065
Current portion of long-term debt	2,650	2,362
Total short-term loans and current portion of long-term debt	\$ 7,954	\$ 6,427

US\$ denominated bank loans represent loans received from a consortium of international banks and inter-bank loans raised by the Company's subsidiary bank. The interest rates for these loans ranged from LIBOR plus 0.25% p.a. to LIBOR plus 3.02% p.a.

In March 2007, two companies within the Group signed loan agreements with a consortium of international banks with the following terms: an amount of US\$ 9.5 billion is for 6 months, US\$ 6 billion is for 12 months and US\$ 6.5 billion is for 18 months. These loans are at LIBOR plus 0.25-0.50% annual interest rates depending on the final settlement date. These loans were drawn to finance the planned acquisition of assets during the auctions for sales of the assets of Yukos Oil Company. The total amount drawn down as of March 31, 2007 is US\$ 2.6 billion and is included into Bank loans – US\$ denominated (See also Note 14).

The RUB denominated loans represent a loan received from a domestic bank that bears interest rates ranging from 6.2% to 6.5% p.a., depending on the maturity schedule, and inter-bank loans raised by the Company's subsidiary bank with interest rates ranging from 4% to 7.25% 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 0% to 12.2% p.a. Customer deposits denominated in foreign currencies bear interest rates ranging from 0% to 8% p.a.

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

Other borrowings primarily include four RUB-denominated loans provided to OJSC Yuganskneftegaz by Yukos Capital S.a.r.l., which bear interest of 9% p.a. and mature in 2007.

OJSC Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (continued)

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

Long-term debt comprises the following:

	March 31, 2007 (unaudited)	December 31, 2006
Bank loans – foreign currencies	\$ 6,627	\$ 4,826
Bank loans raised for funding the acquisition of OJSC Yuganskneftegaz – US\$ denominated	4,537	4,780
Borrowings – US\$ denominated	15	30
Customer deposits – foreign currencies	12	15
Borrowings – RUB denominated	1	2
Customer deposits – RUB denominated	90	85
Bonds of the subsidiary bank – RUB denominated	4	4
Other long-term liabilities – RUB denominated	27	22
	11,313	9,764
Current portion of long-term debt	(2,650)	(2,362)
Total long-term debt	\$ 8,663	\$ 7,402

The interest rates on the Company's long-term bank loans denominated in foreign currencies range from 4.35% to 5.97% p.a. Weighted average interest rates on these loans were 5.89% and 5.96% (LIBOR plus 0.57% and LIBOR plus 0.64%) as of March 31, 2007 and as of December 31, 2006, respectively. These loans are primarily secured by contracts for the export of crude oil.

In February 2007, the Company signed and drew down a six month bridge-loan from a consortium of international banks in the amount of US\$ 2.5 billion at LIBOR plus 0.25-0.30% p.a., depending on the final settlement date. These funds were used for temporary refinancing (until other long-term loans are received) of short-term loans obtained from the Russian banks in the fourth quarter of 2006 with less favorable terms. This bridge-loan was partially refinanced by a long-term loan in May 2007 in the amount of US\$ 2 billion (See Note 14) and therefore this debt is classified as long-term.

In January 2006, a subsidiary of the Company registered in Cyprus signed a loan agreement with a major international bank for an amount of EUR 188 million or US\$ 251 million using the CBR rate as of March 31, 2007. The loan bears an interest rate of EURIBOR plus 0.35%. As of March 31, 2007 the drawdown amount was of EUR 122.7 million or US\$ 163.6 million using the CBR rate as of March 31, 2007. Funds borrowed are to be invested in the construction of ice-reinforced tankers for crude oil transportation purposes in north-western regions of the Russian Federation. The loan is scheduled to be repaid within the twelve years following the completion of tanker construction.

As of March 31, 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 and is secured by pledging the Company's receivables under a long-term contract for the supply of crude oil (see Note 11).

Weighted average interest rates on US\$ denominated borrowings were 7.35% and 8.85% as of March 31, 2007, as of December 31, 2006, respectively.

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

OJSC Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (continued)

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

As of March 31, 2007, other long-term liabilities include promissory notes which mostly mature in 2008. 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 accounts (US\$ denominated) 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 1 January 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 also Note 14);
- pay any arbitration award relating to Moravel Litigation (see Note 11) or the Yukos Capital S.a.r.l. Litigation (see above) 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 quarter of 2007. As of March 31, 2007, the Company is in compliance with all restrictive financial and other covenants contained within its loan agreements.

The aggregate maturity of long-term debt outstanding as of March 31, 2007 is as follows (assuming the debt will not be called by creditors ahead of scheduled maturities):

	(unaudited)
Up to December 31, 2007	\$ 2,063
2008	2,647
2009	2,900
2010	2,613
2011	751
2012 and after	339
Total long-term debt	\$ 11,313

OJSC Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (continued)

8. Revenue Related Taxes

Revenues include the following taxes and duties:

	Three months ended March 31, 2007 (unaudited)	Three months ended March 31, 2006 (as restated) (unaudited)
<i>Oil and gas sales</i>		
Export customs duty	\$ 2,312	\$ 1,833
<i>Petroleum products sales and processing fees</i>		
Export customs duty	366	331
Total revenue related taxes	\$ 2,678	\$ 2,164

9. Taxes

Income taxes comprise the following:

	Three months ended March 31, 2007 (unaudited)	Three months ended March 31, 2006 (as restated) (unaudited)
Current income tax expense	\$ 236	\$ 413
Deferred income tax benefit	(115)	(78)
Total	\$ 121	\$ 335

The most significant reconciling items between theoretical income tax expense and recorded tax are foreign exchange effects and tax related interest (See Note 14). However, the variations in the customary relationship between income tax expense and pretax accounting income are not significant.

10. Related Party Transactions

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

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

OJSC Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (continued)

10. Related Party Transactions (continued)

	Three months ended March 31, 2007 (unaudited)	Three months ended March 31, 2006 (as restated) (unaudited)
Revenues		
Oil and gas sales	\$ 19	\$ –
Sales of petroleum products and processing fees	32	66
Support services and other revenues	1	–
	\$ 52	\$ 66
Costs and expenses		
Pipeline tariffs and transportation costs	\$ 615	\$ 449
Other expenses	20	3
	\$ 635	\$ 452
Other operations		
Sale of short-term and long-term investments	\$ –	\$ 2
Proceeds from short-term and long-term debt	443	2
Repayment of short-term and long-term debt	2,729	1,180
Deposits placed	–	2,694
Deposits paid	55	2,877
Interest expense	95	122
Interest income	1	–
Banking fees	\$ 3	\$ –
	March 31, 2007 (unaudited)	December 31, 2006
Assets		
Cash and cash equivalents	\$ 42	\$ 69
Accounts receivable	20	20
Prepayments and other current assets	152	137
Short-term and long-term investments	–	172
	\$ 214	\$ 398
Liabilities		
Accounts payable	\$ 26	\$ 24
Short-term and long-term debt (including interest)	4,992	7,282
	\$ 5,018	\$ 7,306

Total amounts of transactions and balances 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 March 31, as well as related party balances as of March 31, 2007 and December 31, 2006 are provided in the table below:

OJSC Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (continued)

10. Related Party Transactions (continued)

	Three months ended March 31, 2007 (unaudited)	Three months ended March 31, 2006 (as restated) (unaudited)
Revenues		
Oil and gas sales	\$ 7	\$ 9
Sales of petroleum products and processing fees	24	16
Support services and other revenues	22	8
	\$ 53	\$ 33
Costs and expenses		
Purchase of oil and petroleum products	\$ 265	\$ 7
Other expenses	28	9
	\$ 293	\$ 16
Other operations		
Sales of short-term and long-term investments	\$ –	\$ 10
Acquisition of short-term and long-term investments	8	26
Proceeds from short-term and long-term debt	–	14
Repayment of short-term and long-term debt	–	24
Borrowings issued	5	15
Repayment of borrowings issued	1	1
Interest expense	2	–
Interest income	\$ 40	\$ –
	March 31, 2007 (unaudited)	December 31, 2006
Assets		
Accounts receivable	\$ 43	\$ 33
Prepayments and other current assets	41	42
Short-term and long-term investments	129	121
	\$ 213	\$ 196
Liabilities		
Accounts payable	\$ 266	\$ 193
Short-term and long-term debt (including interest)	10	9
	\$ 276	\$ 202

11. Commitments and Contingencies

Russian Business Environment

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

OJSC Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (continued)

11. Commitments and Contingencies (continued)

Taxation

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

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

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

Russian transfer pricing rules were introduced in 1999, giving Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, provided that the transaction price differs from the market price by more than 20%. Controlled transactions include transactions between related entities and certain other types of transactions between independent parties, such as foreign trade transactions with significant (by more than 20%) price fluctuations. The Russian transfer pricing rules are vaguely drafted, leaving wide scope for interpretation by Russian tax authorities and courts. Due to the uncertainties in interpretation of transfer pricing legislation, the tax authorities may challenge the Group's prices and propose an adjustment. If such price adjustments are upheld by the Russian courts and implemented, the Group's future financial results could be adversely affected. In addition, the Group could face losses associated with the assessment of prior tax underpaid and related interest and penalties, which could have an adverse effect on the Group's financial condition and results of operations. The Company's management believes that such transfer pricing related tax contingencies are possible but will not have any significant impact on the Company's financial statements.

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

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

The Company is currently appealing a number of decisions made by the tax authorities not to reimburse VAT paid by the Company. The Company's related claims in the amount of RUB 1,172 million (US\$ 45 million at the CBR exchange rate as of the balance sheet date) have been upheld by various courts. The remaining claims in the amount of RUB 1,124 million (US\$ 43 million at the CBR exchange rate as of the balance sheet date) are still being heard in the courts.

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

OJSC Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (continued)

11. 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.

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

Environmental Matters

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

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

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

The management believes that, based on the existing legislation, the Company is unlikely to have liabilities that need to be accrued in addition to the amounts already recognized in the interim 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\$ 9 million and US\$ 6 million in social infrastructure and similar expenses for the first three months of 2007 and 2006, respectively. These expenses are presented as other expenses in the consolidated statement of income.

Pension Plans

For the first three months of 2007 and 2006 the Company contributed to the corporate pension fund US\$ 28 million and US\$ 5 million, respectively.

Insurance

The Company insured its assets through the insurance company SK Neftepolis LLC.

As of March 31, 2007 and December 31, 2006 the amount of coverage on assets under such insurance amounted to US\$ 2,234 million and US\$ 2,209 million, respectively.

Russian insurance providers do not offer business interruption insurance. Currently, it is not a common practice in Russia to obtain such insurance.

OJSC Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (continued)

11. Commitments and Contingencies (continued)

Guarantees and Indemnity

As of March 31, 2007, the Company has provided guarantees for certain debt agreements primarily of its subsidiaries. In accordance with the debt agreements, the Company is obliged to perform on the guarantee and to pay the bank all amounts of outstanding guaranteed liabilities, including interest.

The Company cannot substitute guarantees issued by any novation agreement or mutual offset. The Company's obligations under guarantees issued are valid in case of any change in loan agreements.

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

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

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

The Company's outstanding guarantees as of March 31, 2007 are as follows:

Beneficiary Bank/Company	Loan debtor	Maturity date	Contractual principal amount	Maximum guarantee amount as of March 31, 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\$ 662 million pertaining to the loan of US\$ 1,600 million from Societe Generale S.A. The case was heard in July 2006. On April 16, 2007, the London Court of International Arbitration made an intermediate ruling to dismiss Moravel's claim to OJSC Yuganskneftegaz. On April 26, 2007, Moravel informed the Company that in its view the intermediate ruling was a nullity and accused the Company of a repudiatory breach of the arbitration clause contained in the guarantee under which the London Court of International Arbitration was brought. Moravel reserved its rights to challenge the interim ruling. The Company expects to receive the final ruling in June, 2007. The Company believes that the probability of any payments under the above guarantee is remote. 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 hearings, which made it legally binding and enforceable. This ruling was also upheld in cassational instance on August 31, 2006.

OJSC Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (continued)

11. Commitments and Contingencies (continued)

Litigation, Claims and Assessments

In 2002, an option agreement was entered into between Total E&P Vankor (Total) and Anglo-Siberian Oil Company Limited (ASOC) under which Total had a conditional option to buy the latter's 60% stake in Taimyrneft LLC which ASOC held through Anglo-Siberian Oil Company Limited (Cyprus) (ASOC Cyprus) for US\$ 1 million. ASOC and ASOC Cyprus belong to the Rosneft International Group.

Total obtained injunctions in various jurisdictions to prevent ASOC Cyprus from trading in the shares of Taimyrneft LLC. In 2005 Total E&P Vankor filed an arbitration claim, asking to exercise the option or cover the losses amounting to above US\$ 700 million. In early 2007, the court awarded US\$ 116 million to Total E&P Vankor, including interest at 6.5% p.a. from December 31, 2004 to the date of payment, and also to compensate Total E&P Vankor for the related court expenses of US\$ 2.8 million. The amounts to be paid are provided in full in the Company's 2006 audited consolidated financial statements.

During 2004, Total E&P Vankor issued a claim against ASOC Cyprus for US\$ 640 million under the sale and purchase agreement for a 52% share in Eniseineft LLC. Total alleged that under the terms of a sale agreement, the shareholding in Eniseineft LLC should have been sold to them. The Company contested this on the grounds that the relevant conditions precedent to the sale had not been met. The arbitration proceedings were completed in 2006 and the final decision was made in late 2006 in the Company's favor. Apart from the court expenses, which are not significant for the Company, there are no additional liabilities related to this claim. No additional actions have been taken by any of the parties regarding this case.

The Company is a co-defendant in the litigation in the USA in respect of the acquisition of OJSC Yuganskneftegaz. This litigation was brought by certain holders of American Depository Receipts ("ADRs") of Yukos Oil Company seeking unspecified damages due to the fall in market value of the ADRs. On July 13, 2006, plaintiffs filed an amended complaint. The amended complaint seeks to recover from alleged loss resulting from events surrounding Yukos Oil Company, including levying of taxes upon Yukos Oil Company by the Russian Federation, the arrest of certain assets of Yukos Oil Company to pay owed taxes. Defendants filed motions to dismiss on numerous grounds. The Company believes that this claim is 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 claimant is seeking to recover all the common shares of OJSC Yuganskneftegaz and also damages in the total amount of RUB 388 billion (approximately US\$ 14.9 billion at the CBR exchange rate as of March 31, 2007). In February 2007, the Moscow Arbitration Court dismissed Yukos Oil Company's claim. This ruling was upheld in appeal hearings on May 23, 2007.

The Company's 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.

OJSC Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (continued)

11. Commitments and Contingencies (continued)

License Agreements

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

Oil Supplies

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

12. 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 differences in 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 segment are consistent with those applied to the interim condensed consolidated financial statements. Sales transactions for goods and services between the segments are carried out using prices agreed upon between Rosneft and its subsidiaries.

OJSC Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (continued)

12. Segment Information (continued)

Operating segments during the three months ended March 31, 2007 are as follows:

	Exploration and production (unaudited)	Refining, marketing and distribution (unaudited)	Other activities (unaudited)	Total Elimination (unaudited)	Consolidated (unaudited)
Revenues from external customers	\$ 362	\$ 7,816	\$ 42	\$ –	\$ 8,220
Intersegmental revenues	1,411	481	282	(2,174)	–
Total revenues	<u>\$ 1,773</u>	<u>\$ 8,297</u>	<u>\$ 324</u>	<u>\$ (2,174)</u>	<u>\$ 8,220</u>
Operating expenses and cost of purchased oil and petroleum products	\$ 491	\$ 512	\$ 19	\$ –	\$ 1,022
Depreciation, depletion and amortization	\$ 580	\$ 89	\$ 4	\$ –	\$ 673
Operating income	\$ 715	\$ 1,937	\$ 282	\$ (2,174)	\$ 760
Total other expenses, net					<u>(280)</u>
Income before income tax					<u>\$ 480</u>
Total assets	\$ 34,229	\$ 11,303	\$ 4,833	\$ –	\$ 50,365

Operating segments during the three months ended March 31, 2006 are as follows (as restated):

	Exploration and production (unaudited)	Refining, marketing and distribution (unaudited)	Other activities (unaudited)	Total Elimination (unaudited)	Consolidated (unaudited)
Revenues from external customers	\$ 117	\$ 7,170	\$ 40	\$ –	\$ 7,327
In tersegmental revenues	2,679	209	129	(3,017)	–
Total revenues	<u>\$ 2,796</u>	<u>\$ 7,379</u>	<u>\$ 169</u>	<u>\$ (3,017)</u>	<u>\$ 7,327</u>
Operating expenses and cost of purchased oil and petroleum products	\$ 315	\$ 406	\$ 10	\$ –	\$ 731
Depreciation, depletion and amortization	\$ 287	\$ 94	\$ 3	\$ –	\$ 384
Operating income	\$ 605	\$ 3,816	\$ 124	\$ (3,017)	\$ 1,528
Total other expenses, net					<u>(348)</u>
Income before income tax					<u>\$ 1,180</u>
Total assets	\$ 23,358	\$ 6,189	\$ 1,126	\$ –	\$ 30,673

OJSC Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (continued)

12. Segment Information (continued)

Below is a breakdown of revenues by domestic and export sales, with a classification of export sales based on the direction of shipment.

	Three months ended March 31, 2007 (unaudited)	Three months ended March 31, 2006 (as restated) (unaudited)
Oil and gas sales		
Export sales of crude oil – Europe	\$ 3,802	\$ 3,573
Export sales of crude oil – Asia	1,229	963
Export sales of crude oil – CIS	362	395
Export sales of crude oil – other directions	128	–
Domestic sales of crude oil	38	58
Domestic sales of gas	79	50
Total oil and gas sales	\$ 5,638	\$ 5,039
Petroleum products and processing fees		
Export sales of petroleum products – Europe and other directions	\$ 800	\$ 810
Export sales of petroleum products – Asia	515	456
Export sales of petroleum products – CIS	24	38
Domestic sales of petroleum products and processing fees	1,157	915
Total petroleum products and processing fees	\$ 2,496	\$ 2,219

13. Fair Value of Financial Instruments and Risk Management

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

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

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

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

As a result of the above mentioned forward foreign currency contracts entered into in the first quarter of 2007, fair value of forward contracts in the amount of US\$ 39.7 million was recorded as prepayments and other current assets in the consolidated balance sheet, and the change in fair value was recognized as a foreign exchange gain in the amount of US\$ 30.2 million in the consolidated statement of income, net of tax effects.

OJSC Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (continued)

14. Subsequent Events

On April 3, 2007, the Company acquired 100% interest in CJSC Yukos-Mamontovo for no consideration. Transfer of rights of ownership was made upon the decision of the Moscow Arbitration Court. CJSC Yukos-Mamontovo is an owner service facilities leased by RN-Yuganskneftegas and used in crude oil production. This acquisition will be accounted for as an asset acquisition, not as a business combination.

In May 2007, the Company signed a long-term loan agreement with a syndicate of Western banks in the amount of US\$ 2 billion, maturing in 5 years at the interest rate of LIBOR plus 0.5% applies for the first three years and LIBOR plus 0.575% for the remaining term. These funds were used to refinance part of the bridge loan in the amount of US\$ 2.5 billion (See Note 7).

In April-May 2007, the Company received the remaining US\$ 19.4 billion related to the loan agreement with a syndicate of Western banks for US\$ 22 billion (See Note 7).

In April 2007, the Company paid RUB 112 million (US\$ 4 million at the CBR exchange rate as of the transaction date) to acquire 9,876,869 additionally issued ordinary shares of OJSC Ohinskaya TETS (see Note 3), thus increasing its share in OJSC Ohinskaya TETS equity to 87.52%.

On March 27, 2007, RN-Razvitie LLC, the Company's wholly owned subsidiary, won the auction for the acquisition of 1 billion ordinary shares of Rosneft (9.44% of share capital) and promissory notes of OJSC Yuganskneftegaz from Yukos Oil Company. RN-Razvitie LLC offered RUB 197.84 billion (US\$ 7.59 billion at the CBR exchange rate as of the date of the auction). For the purpose of consolidated financial statements the purchase price was allocated proportionally to the fair value of assets acquired and amounted to RUB 194.43 billion for Rosneft shares, or RUB 194.43 for 1 share (US\$ 7.46 billion and US\$ 7.46 for 1 share at the CBR exchange rate as of the date of the auction, respectively) and RUB 3,412 million for the promissory notes of OJSC Yuganskneftegaz (US\$ 131 million at the CBR exchange rate as of the date of the auction). The face value of the promissory notes amounted to RUB 3,558 million (US\$ 136 million at the CBR exchange rate as of the date of the auction). Title to the shares and promissory notes was transferred to RN-Razvitie LLC on April 17, 2007.

In April and May 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. These assets comprise shares in various exploration and production, refining, oilfield service and marketing companies located in Siberia and Povolzhskiy regions of Russian Federation. The total consideration was RUB 344.1 billion (US\$ 13.3 billion at the CBR exchange rate as of the date of the auction). The Company is currently analyzing the assets acquired and liabilities assumed, including an assessment of the related tax and legal contingencies which existed as of the date of acquisition.

On May 22, 2007, the Rosneft's Board of Directors recommended to the annual shareholders' meeting to declare annual dividends (based on 2006 performance results) for common stock in the amount of RUB 14,096 million or RUB 1.33 per share (US\$ 541.9 million or US\$ 0.05 per share at the CBR rate as of March 31, 2007).

OJSC Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (continued)

14. Subsequent events (continued)

In June 2007 a subsidiary of the Company won an auction for licence for the exploration and development of two oil and gas fields in Samara Region. Total cost of licenses amounted to RUR 932 million (US\$ 35.8 million at the CBR rate as of March 31, 2007).

In June 2007 the Company made an irrevocable offer to purchase certain assets of Yukos Oil Company that were not purchased by the successful bidder at the auction. The assets comprise shares in various marketing and energy-generating companies located in the South region of Russia. The total consideration will be RUB 4.9 billion (US\$ 188 million at the CBR rate as of March 31, 2007).

In June 2007, the Company expects to receive cash proceeds in the amount of approximately RUB 263.7 billion (US\$ 10.1 billion at the CBR rate as of March 31, 2007) following the bankruptcy proceedings of Yukos Oil Company. As a result, the Company expects to record a gain in the second quarter of 2007 in the amount of approximately US\$ 8.8 billion (before considering tax effects). These proceeds are expected to be used to repay the Company's debt that was drawn for the acquisition of certain assets of Yukos Oil Company during the auctions (see Note 7).

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

Following the intention of the Company to proceed with the tax restructuring process in respect of OJSC Yuganskneftegaz back-taxes, the tax authorities retroactively cancelled suspension of certain interest accruals for them to be fully included in the tax restructuring plan. These tax liabilities were already fully accrued in the consolidated financial statements in prior periods together with all penalties and a portion of interest before such interest accrual was suspended following the Company's applications for restructuring. As a result of the cancellation, additional interest of approximately US\$ 388 million became due as of June 1, 2007. The additional amount of interest, not previously recorded, amounted to approximately US\$ 332 million as of March 31, 2007. The total amount of interest and penalties payable as of March 31, 2007 amounted to US\$ 831 million. The interest will continue to accrue in accordance with the Tax Code of the Russian Federation at the CBR refinancing rate until the restructuring plan is approved by the Government of the Russian Federation which is currently expected before the end of 2007. The total principle amount subject to tax restructuring provisions is US\$ 1,260 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 force. The management concluded that the criteria of 'more-likely than-not' in respect of forgiveness of income tax related interest and penalties is currently not met as well as 'probable' criteria in respect of forgiveness of all other tax interest and penalties. Therefore the full accrual of additional interest in the amount of US\$ 332 million was recorded in these interim condensed consolidated financial statements for the period ended March 31, 2007 as a change in estimate.