

OJSC Rosneft Oil Company

Interim Consolidated Financial Statements

As of and for the six-months ended June 30, 2005 and 2004

OJSC Rosneft Oil Company

Interim Consolidated Financial Statements

As of and for the six-months ended June 30, 2005 and 2004

Contents

Independent Accountants' Review Report.....	1
Interim Consolidated Financial Statements	
Consolidated Balance Sheets	2
Consolidated Statements of Income	3
Consolidated Statement of Changes in Shareholder's Equity	4
Consolidated Statements of Cash Flows	5
Notes to the Interim Consolidated Financial Statements	7

Independent Accountants' Review Report

We have reviewed the accompanying consolidated balance sheet of Open Joint Stock Company ("OJSC") Rosneft Oil Company and subsidiaries (collectively the "Company") as of June 30, 2005 and related consolidated statements of income and cash flows for the six-months ended June 30, 2005 and 2004 and the related consolidated statement of changes in shareholder's equity for the six-months ended June 30, 2005 in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these interim consolidated financial statements is the representation of the management of the Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, with the exception of the matters described in the following paragraphs, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

As more fully discussed in Note 1 to the interim consolidated financial statements, the accompanying interim consolidated financial statements do not include all the disclosures required by accounting principles generally accepted in the United States of America.

As more fully discussed in Note 2 to the interim consolidated financial statements, the value of property, plant and equipment pertaining to non-controlling shareholders in the accounting for minority interests resulting from the acquisition of OJSC Yuganskneftegaz has been recorded at appraised values rather than at historical cost as required by accounting principles generally accepted in the United States of America.

The consolidated financial statements as of and for the year ended December 31, 2004, were audited by us and we expressed a qualified opinion on them with respect to the value of property, plant and equipment pertaining to non-controlling shareholders in our report dated June 24, 2005, but we have not performed any auditing procedures since that date.

Ernst & Young LLC

October 20, 2005

OJSC Rosneft Oil Company

Consolidated Balance Sheets

As of June 30, 2005 and December 31, 2004

(Currency – thousands of US dollars, except for share data)

	Notes	June 30, 2005 (unaudited)	December 31, 2004
ASSETS			
Current assets:			
Cash and cash equivalents	3	\$ 588,586	\$ 1,042,808
Restricted cash	3	21,330	15,316
Short-term investments	4	97,144	161,013
Accounts receivable, net of allowance for doubtful accounts of US\$ 76,796 and US\$ 74,797, respectively	5	5,624,073	4,964,718
Inventories	6	713,860	516,866
Deferred tax assets		49,013	27,629
Prepaid expenses and other current assets	7	251,237	95,120
Total current assets		7,345,243	6,823,470
Non-current assets:			
Long-term investments	8	310,846	333,657
Long-term banking loans to customers, net of allowance for doubtful accounts of US\$ 6,859 and US\$ 4,006, respectively		94,364	40,414
Oil and gas properties, net	9, 12	16,816,625	16,480,621
Property, plant and equipment, net	10, 12	1,890,815	1,789,761
Construction-in-progress	11	538,071	480,733
Deferred tax assets		13,534	5,494
Other non-current assets	13	29,367	33,289
Total non-current assets		19,693,622	19,163,969
Total assets		\$ 27,038,865	\$ 25,987,439
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities:			
Accounts payable and accruals	14	1,516,481	1,429,496
Short-term loans and current portion of long-term debt	15	3,774,677	4,666,940
Accrued income and other taxes	17	1,815,329	1,560,098
Deferred tax liability		10,073	–
Other current liabilities		16,391	41,892
Total current liabilities		7,132,951	7,698,426
Asset retirement obligations	18	681,451	554,992
Long-term debt	15	8,026,420	9,009,828
Deferred tax liability		2,767,110	2,853,618
Total liabilities		18,607,932	20,116,864
Minority interest	19	2,717,667	2,535,433
Commitments and contingencies	22	–	–
Shareholder's equity:			
Common stock (shares authorized and outstanding: 90,921,740 as of June 30, 2005 and December 31, 2004)	16	19,701	19,701
Additional paid-in capital	16	19,157	19,157
Retained earnings		5,674,408	3,296,284
Total shareholder's equity		5,713,266	3,335,142
Total liabilities and shareholder's equity		\$ 27,038,865	\$ 25,987,439

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

See Accountants' Review Report.

OJSC Rosneft Oil Company

Consolidated Statements of Income

For the six-months ended June 30, 2005 and 2004

(Currency – thousands of US dollars, except per share data)

	Notes	Six-months ended June 30, 2005 (unaudited)		Six-months ended June 30, 2004
Revenues				
Oil and gas sales	20	\$ 6,719,868	\$	1,150,987
Refined products sales and processing fees	20	2,980,372		1,030,796
Support services and other sales	20	163,508		119,216
Total		9,863,748		2,300,999
Operating and other expenses				
Cost of extraction of oil and gas sold		447,160		147,687
Cost of production and purchased refined products, and processing fees		584,406		306,106
Cost of support services and other sales		48,646		72,070
Selling and administrative expenses		176,205		101,734
Pipeline tariffs and transportation costs		798,959		237,579
Exploration expenses		48,891		38,584
Depreciation, depletion and amortization		600,359		183,201
Accretion expense		16,919		3,618
Taxes other than income tax	21	2,199,810		417,395
Excise tax and export customs duties	20	2,189,011		266,654
Total		7,110,366		1,774,628
Operating income		2,753,382		526,371
Other income / (expense)				
Interest income		32,901		20,118
Interest expense		(381,667)		(71,386)
Loss on disposal of property, plant and equipment		(2,406)		(4,278)
(Loss) / gain on sale of investments		(8,737)		12,430
Gain on sale of interest in CJSC Sevmorneftegaz	8	1,303,320		—
Equity in earnings of investees	8	10,281		25,014
Dividends and income from joint ventures		2,633		22,099
Other expenses, net		(72,938)		(80,339)
Currency translation gain		26,237		30,139
Total other income / (expense)		909,624		(46,203)
Income before income tax		3,663,006		480,168
Income tax expense	21	(913,843)		(118,582)
Income before minority interest		2,749,163		361,586
Minority interest in subsidiaries' earnings		(309,819)		(21,814)
Net income		\$ 2,439,344	\$	339,772
Earnings per common share (US\$) - basic and diluted		26.83		3.74
Weighted average number of shares outstanding		90,921,740		90,921,740

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

See Accountants' Review Report.

OJSC Rosneft Oil Company

Consolidated Statement of Changes in Shareholder's Equity

For the six-months ended June 30, 2005

(Currency – thousands of US dollars)

	Common stock	Preferred stock	Additional paid-in capital	Retained earnings	Shareholder's equity
Balance at December 31, 2004	19,701	–	\$ 19,157	\$ 3,296,284	\$ 3,335,142
Net income for the period (unaudited)	–	–	–	2,439,344	2,439,344
Dividends declared on common stock (unaudited)	–	–	–	(61,219)	(61,219)
Balance at June 30, 2005 (unaudited)	19,701	–	\$ 19,157	\$ 5,674,408	\$ 5,713,266

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

See Accountants' Review Report.

OJSC Rosneft Oil Company

Consolidated Statements of Cash Flows

For the six-months ended June 30, 2005 and 2004

(Currency – thousands of US dollars)

	Six-months ended June 30, 2005 (unaudited)	Six-months ended June 30, 2004
Operating activities		
Net income	\$ 2,439,344	\$ 339,772
Reconciliation of net income to net cash provided by operating activities:		
Non-cash activities	14,452	13,950
Effect of currency translation gain	(71,662)	(1,548)
Gain on sale of interest in CJSC Sevmorneftegaz (Note 8)	(1,303,320)	–
Depreciation, depletion and amortization	600,359	183,201
Exploration expenses	48,891	38,584
Loss on disposals of property, plant and equipment	2,406	4,278
Deferred income tax	(5,239)	(16,915)
Accretion expense	16,919	3,618
Equity in investees' earnings	(10,281)	(25,014)
Increase / (decrease) in allowance for doubtful accounts on receivables and banking loans to customers	4,852	(4,190)
Minority interests in subsidiaries' earnings	309,819	21,814
Changes in operating assets and liabilities, net of acquisitions:		
Increase in accounts receivable	(816,539)	(127,948)
Increase in inventories	(196,994)	(31,416)
Increase in prepaid expenses	(156,117)	(15,251)
Decrease / (increase) in other non-current assets	3,922	(17,389)
Increase in long-term banking loans to customers	(56,803)	–
Decrease in accounts payable and accruals	(3,034)	(39,474)
Increase in accrued income and other taxes	255,231	37,205
(Decrease) / increase in other current liabilities	(25,501)	908
Net cash provided by operating activities	1,050,705	364,185
Investing activities		
Capital expenditures	(860,237)	(326,538)
Proceeds from sale of property, plant and equipment	16,470	38,077
Acquisitions of short-term investments	(55,528)	(272,575)
Proceeds from sale of short-term investments	119,397	168,880
Acquisitions of entities and additional shares in subsidiaries	(159,070)	(84,583)
Proceeds from sale of long-term investments	51,583	15,597
Purchase of long-term investments	(18,492)	(75,466)
Net cash used in investing activities	\$ (905,877)	\$ (536,608)

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

See Accountants' Review Report.

OJSC Rosneft Oil Company
Consolidated Statements of Cash Flows (continued)
(Currency – thousands of US dollars)

	Six-months ended June 30, 2005 (unaudited)	Six-months ended June 30, 2004
Financing activities		
Proceeds from short-term debt	\$ 2,003,931	\$ 948,722
Repayment of short-term debt	(1,997,738)	(1,027,965)
Proceeds from long-term debt	127,070	657,674
Repayment of long-term debt	(705,614)	(430,669)
Dividends paid to minority shareholders of subsidiaries	(7,993)	(6,591)
Net cash (used in) / provided by financing activities	<u>(580,344)</u>	<u>141,171</u>
Decrease in cash and cash equivalents	(435,516)	(31,252)
Cash and cash equivalents at beginning of year	1,042,808	235,212
Effect of foreign exchange on cash and cash equivalents	<u>(18,706)</u>	<u>1,548</u>
Cash and cash equivalents at end of period	<u>\$ 588,586</u>	<u>\$ 205,508</u>
Supplemental disclosures of cash flow information		
Cash paid for interest (net of amount capitalized)	\$ 304,105	\$ 67,772
Cash paid for income taxes	\$ 787,928	\$ 114,552
Supplemental disclosure of non-cash activities		
Income taxes off-sets	\$ 37,163	\$ 23,538
Non-cash capital expenditures	\$ (20,466)	\$ (38,730)
Proceeds in the form of promissory notes from sales of assets	\$ 18,876	\$ 13,952

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

See Accountants' Review Report.

OJSC Rosneft Oil Company

Notes to the Interim Consolidated Financial Statements

As of and for the six-months ended June 30, 2005 and 2004

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

1. Basis of Presentation of Financial Statements

Nature of Operations

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

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, OJSC Vnesheconombank, OJSC Transneft, and federal agencies including tax authorities.

Currency Exchange and Control

During the first half of 2005 the quota of mandatory conversion of hard currency sales to rubles was 10%.

Form and Content of the Interim 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 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 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 2004 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 2004 audited consolidated financial statements. Management believes that the disclosures are adequate to make the information presented not misleading if these interim consolidated financial statements are read in conjunction with the Company's 2004 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 six-months ended June 30, 2005 and 2004 may not be indicative of the results of operations for the respective full years. These interim consolidated financial statements contain information updated through October 20, 2005.

The accompanying interim 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 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) revenue recognition; (2) recognition of interest expense and other operating expenses; (3) valuation and depreciation of property, plant and equipment; (4) foreign currency translation; (5) deferred income taxes; (6) valuation allowances for unrecoverable assets; (7) accounting for the time value of money; (8) accounting for investments in oil and gas property and conveyances; (9) consolidation principles; (10) recognition and disclosure of guarantees, contingencies, commitments and certain assets and liabilities; (11) accounting for asset retirement obligations.

Certain data contained in the consolidated balance sheet as of December 31, 2004, as well as in the consolidated statements of income and cash flows for the six-months ended June 30, 2004 were reclassified to conform to the current period presentation.

OJSC Rosneft Oil Company

Notes to Interim Consolidated Financial Statements (continued)

1. Basis of Presentation of Financial Statements (continued)

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

As discussed in Note 2 the Company acquired OJSC Yuganskneftegaz on December 31, 2004. Accordingly, the results of operations of this subsidiary are included into consolidated statement of income of the Company from January 1, 2005. Consequently, the results of operations for the six-months ended June 30, 2005 and June 30, 2004 are not comparable without considering this matter. The results of OJSC Yuganskneftegaz for the six month period ended June 30, 2005 constitute approximately 70% on average of the revenues and operating expenses of the Company.

Management Estimates

The preparation of the interim consolidated 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 revenues and expenses 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 lives of long-term assets and investments; provisions for uncollectible accounts receivable; asset retirement obligations; legal and tax contingencies; environmental remediation obligations; recognition and disclosure of guarantees and other commitments. 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.

Principles of Consolidation

The consolidated statements include business transactions of the subsidiaries in which the Company directly or indirectly owns more than 50% of common voting stock, or on which it otherwise exercises control. All significant intercompany transactions and balances have been eliminated. Investments in other significant entities in which the Company owns between 20% and 50% are generally accounted for under the equity method since the Company does not have absolute control, but rather significant influence. Investments in other companies are accounted for at cost and adjusted for estimated impairment.

The Company is currently analyzing the provisions of FIN 46R, "*Consolidation of Variable-Interest Entities*", for potential consolidation of companies, which should have been adopted in full from January 1, 2005. However, the Company does not expect that the application of FIN 46R, will have any material effect on the Company's consolidated financial results, consolidated financial position and consolidated cash flows.

Foreign Currency Translation

US dollar ("US\$") is the Company's functional currency and the reporting currency.

Since the Company's books of record are maintained in Russian rubles ("RUR"), it must re-measure those balances under SFAS 52, "*Foreign Currency Translation*". Monetary assets and liabilities have been translated into US\$ at the exchange rate at balance sheet date. Non-monetary assets and liabilities have been translated at historical rates. Data on revenues, expenses, and cash flows have been translated at exchange rates approximating actual rates that prevailed on the transactions dates. Gains and losses resulting from the re-measurement into US\$ are included in the consolidated statements of income.

As of June 30, 2005 and December 31, 2004, the official rates of exchange were 28.67 RUR for one US\$ and 27.75 RUR for one US\$, respectively.

OJSC Rosneft Oil Company

Notes to Interim Consolidated Financial Statements (continued)

1. Basis of Presentation of Financial Statements (continued)

Income Taxes

The Company is not subject to Russian taxation on a consolidated basis. Current income taxes are provided on the accounting profit as determined under Russian Accounting Principles at the applicable local tax rates after adjustments for certain items which are not deductible for taxation purposes, and after consideration of tax allowances. Deferred income taxes are determined using the liability approach in accordance with SFAS 109, "Accounting for Income Taxes". This method gives consideration to the future tax consequences based on the effective tax rate associated with differences between the financial reporting and tax basis of assets and liabilities and gives immediate income statement effect to changes in income tax laws, including changes in the tax rates. A valuation allowance is recorded to reduce deferred tax assets when management believes it is more likely than not that a tax benefit will not be realized.

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.

Comprehensive Income

As at June 30, 2005 and December 31, 2004, there were no other comprehensive income items and, therefore, comprehensive income for the first half of 2005 and 2004 equals net income.

Recent Accounting Standards

In April 2005, the FASB issued FASB Staff Position FAS No. 19-1, "Accounting for Suspended Well Costs" ("FSP FAS 19-1"). FSP FAS 19-1 applies to the recognition of field exploration costs that were capitalized in the balance sheet prior to the time when it was determined whether recoverable oil and gas reserves have been discovered in the field. The issued FSP FAS 19-1 explains that it is possible to continue capitalizing exploratory well costs for over a year's term in the following cases: (a) if the well has found a sufficient quantity of oil and gas reserves to justify its completion as a producing well subject to additional capital investments; and (b) if the exploration entity has made sufficient progress assessing the reserves and the economic viability of the project. In addition FSP 19-1 requires certain additional disclosures in financial statements regarding management's evaluation of capitalized exploratory well costs. FSP FAS 19-1 is effective for the first reporting period beginning after April 4, 2005. The adoption of FSP FAS 19-1 will not have a material impact on the Company's financial statements.

2. Significant Acquisitions

OJSC Yuganskneftegaz and Baikalfinancegroup LLC

In late December 2004, the Company acquired 100% interest in Baikalfinancegroup LLC, which had won the auction on the sale of 76.79% of OJSC Yuganskneftegaz shares (100% of common stock of OJSC Yuganskneftegaz). OJSC Yuganskneftegaz is engaged in exploration, development, construction of surface facilities and production of hydrocarbons in West Siberia. The purchase price of the shares was RUR 260,782 million (US\$ 9,398 million at the Central Bank of Russia (CBR) exchange rate in effect on the settlement date).

OJSC Rosneft Oil Company

Notes to Interim Consolidated Financial Statements (continued)

2. Significant Acquisitions (continued)

OJSC Yuganskneftegaz and Baikalfinancegroup LLC (continued)

The purpose of the transaction was acquisition of the oil properties held by OJSC Yuganskneftegaz in the fields with proved, probable and possible oil and gas reserves. The fields held by OJSC Yuganskneftegaz are located in Khanty-Mansi Autonomous Area with well developed infrastructure and are close to the OJSC Transneft pipeline system.

The purchase price allocation to various items of assets and liabilities based on independent appraiser assessment of the fair value of acquired assets and assumed liabilities of OJSC Yuganskneftegaz is presented below (after negative goodwill allocation):

	December 31, 2004
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 14,107
Short-term investments	21,520
Accounts receivable	3,900,358
Inventories	93,806
Prepaid expenses	924
Total current assets	4,030,715
Long-term investments	217
Oil and gas properties, net	6,017,276
Mineral rights	6,836,919
Property, plant and equipment, net	369,648
Construction-in-progress	41,170
Deferred tax assets	3,235
Leased equipment	136,600
Other non-current assets	3,881
Total non-current assets	13,408,946
Total assets	\$ 17,439,661
LIABILITIES	
Accounts payable	\$ (760,677)
Short-term loans and credits and current portion of long-term liabilities	(384,671)
Accrued income and other taxes	(1,394,735)
Other current liabilities	(6,306)
Total current liabilities	(2,546,389)
Long-term credits and loans net of current liabilities	(625,115)
Asset retirement obligations	(386,600)
Deferred tax liability	(2,758,942)
Total non-current liabilities	(3,770,657)
Total liabilities	\$ (6,317,046)
Total acquired net assets	\$ 11,122,615
Minority interest	\$ (1,724,633)
Purchase price	\$ 9,397,982

OJSC Rosneft Oil Company

Notes to Interim Consolidated Financial Statements (continued)

2. Significant Acquisitions (continued)

OJSC Yuganskneftegaz and Baikalfinancegroup LLC (continued)

Deferred tax liability represents the difference between fair values of assets and liabilities of OJSC Yuganskneftegaz and their respective tax values.

Negative goodwill arose as a result of excess of the net assets measured at fair value over the purchase price. The value of net assets determined by the appraiser differs from the purchase price primarily due to the change in circumstances affecting the risk assessment of the outcome of contingencies existing in OJSC Yuganskneftegaz at the date of fair value assessment.

The negative goodwill in the amount of US\$ 7,052 million (as of December 31, 2004) was allocated proportionally between oil and gas properties and mineral rights. The resulting value of mineral rights is amortized in accordance with the Company's accounting policy for the depletion of acquisition costs.

As of June 30, 2005, the Company adjusted the purchase price allocation to OJSC Yuganskneftegaz assets and liabilities as a result of reassessing (see Notes 5 and 22) the outcome of the contingencies existing as of the acquisition date on the basis of information available as of the approval date of these interim consolidated financial statements. The amount of this adjustment decreasing net assets (and, accordingly, negative goodwill) was US\$ 183.8 million. This amount was prorated among the categories of assets (as discussed above). The fair value of net assets acquired and, accordingly, purchase price allocation may be further revised at a later date based on the final outcome of the contingencies existing as of acquisition date.

As discussed above, the Company acquired less than 100% in the share capital of OJSC Yuganskneftegaz and minority interest of 23.21% in the share capital OJSC Yuganskneftegaz relates to the owner of preferred shares (see Note 19).

For the purposes of valuation of oil and gas properties, property, plant and equipment, and construction-in-progress which relates to minority interest, the Company used appraised fair values (presented above) as the previous shareholder did not provide the records of the historical cost of these non-current assets. Minority interest which relates to other assets and liabilities was determined on the basis of their historical cost.

Acquisition of Additional Interests

In the first half of 2005, the Company acquired 33,337,187 common shares (24.29% of total common shares) and 17,633,509 preferred shares (61.63% of total preferred shares) in OJSC Rosneft-Krasnodarneftegaz, thus having increased its share in the share capital of OJSC Rosneft-Krasnodarneftegaz to 95.46%. The purchase price of the above shares amounted to US\$ 109.5 million. Payment was made in cash. The excess of the purchase price over the fair value of the corresponding net assets in the amount of US\$ 49.5 million was included in the capitalized costs related to proved oil and gas reserves. The allocation of the purchase price is preliminary and can be further adjusted later once the estimated fair values of oil and gas properties updated.

In first half of 2005, the Company also acquired insignificant minority interest in several other subsidiaries.

OJSC Rosneft Oil Company

Notes to Interim Consolidated Financial Statements (continued)

3. Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2005 and December 31, 2004 comprise the following:

	2005 (unaudited)	2004
Cash in hand and cash in bank – RUR	\$ 416,557	\$ 731,220
Cash in hand and cash in bank – hard currency	155,778	282,392
Other cash and cash equivalents	16,251	29,196
Total cash and cash equivalents	\$ 588,586	\$ 1,042,808

Restricted cash as of June 30, 2005 and December 31, 2004 comprises the following:

	2005 (unaudited)	2004
Obligatory reserve of the Company's bank in CBR	\$ 11,171	\$ 10,955
Other restricted cash	10,159	4,361
Total restricted cash	\$ 21,330	\$ 15,316

Obligatory reserve of the Company's bank in CBR represents amounts deposited with the CBR for securing the current operating activity. Credit institutions are required to maintain a non-interest bearing cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution, and this amount has certain restrictions for use.

Cash accounts denominated in hard currency represent primarily cash in US\$.

4. Short-Term Investments

Short-term investments as of June 30, 2005 and December 31, 2004 comprise the following:

	2005 (unaudited)	2004
Short-term loans issued	\$ 7,924	\$ 4,426
Short-term promissory notes	1,272	811
Trading portfolio of the Company's bank		
Short-term promissory notes	2,222	15,208
Corporate and state bonds	40,158	50,477
Other	13,527	13,586
Settlements on notes with related party	–	25,333
Bank deposits	4,046	3,000
Short-term assignment agreements	4	21,613
Investments in available-for-sale securities	15,291	15,265
Other	12,700	11,294
Total short-term investments	\$ 97,144	\$ 161,013

In December 2004, the Company acquired 89.46% of the charter capital of SK Neftepolis LLC which had previously been sold to a third party. As a result of the acquisition, the Company increased its share in the charter capital of the insurance company to 99.9%. The purpose of the acquisition was accumulation of the Company's shares for further disposal thereof to a strategic partner. This amount of US\$ 15.3 million is reflected as an investment in available-for-sale securities (see also Note 24).

OJSC Rosneft Oil Company

Notes to Interim Consolidated Financial Statements (continued)

5. Accounts Receivable, net

Accounts receivable as of June 30, 2005 and December 31, 2004 comprise the following:

	2005 (unaudited)	2004
Trade receivables	\$ 3,741,143	\$ 3,982,380
Value added tax receivable	1,199,673	517,765
Advances to suppliers	232,417	165,145
Other taxes	19,202	34,980
Banking loans to customers	276,422	240,528
Other	232,012	98,717
Less allowance for doubtful accounts	(76,796)	(74,797)
Total accounts receivable, net	\$ 5,624,073	\$ 4,964,718

Trade receivables include YUKOS Group debt which is composed of YUKOS Group payables to OJSC Yuganskneftegaz for oil supplied during the year 2004. This debt is recorded net of accounts payable by OJSC Yuganskneftegaz to the same legal entities. The relevant legal proceedings for this debt were initiated against YUKOS. Management of the Company believes that all the debt will be settled during the year 2006. Accordingly, this debt in the amount of US\$ 3,274 million as of June 30, 2005 reflects the allowance in the amount of US\$ 155.2 million based on the time value of money.

6. Inventories

Inventories as of June 30, 2005 and December 31, 2004 comprise the following:

	2005 (unaudited)	2004
Materials and supplies	\$ 318,755	\$ 275,931
Crude oil and gas	221,990	115,347
Petroleum products	173,115	125,588
Total inventories	\$ 713,860	\$ 516,866

Materials and supplies are mostly comprised of spare parts, construction materials and pipes.

7. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets as of June 30, 2005 and December 31, 2004 comprise the following:

	2005 (unaudited)	2004
Insurance payments	\$ 7,700	\$ 8,341
Customs	208,742	41,042
Compensation of expenses under agency contracts	3,129	–
Fiduciary management	718	8,614
Other	30,948	37,123
Total prepaid expenses and other current assets	\$ 251,237	\$ 95,120

Customs primarily represent export duty prepayment expenses, related to the export of crude oil and refined products (see Note 20).

OJSC Rosneft Oil Company

Notes to Interim Consolidated Financial Statements (continued)

8. Long-Term Investments

Long-term investments as of June 30, 2005 and December 31, 2004 comprise the following:

	2005 (unaudited)	2004
Equity method investments		
Sakhalin-1 PSA	\$ 59,384	\$ 59,384
Polar Lights Company LLC	82,784	65,061
CJSC Kaspiy-1	28,837	29,336
Rosneft-Stroytransgaz LLC	—	—
CJSC Rosshelf	—	—
CJSC Sevmorneftegaz	—	—
Other	1,407	1,883
Total	\$ 172,412	\$ 155,662
Russian government bonds	187	9,032
Long-term loans	17,362	9,407
Long-term loans to equity investees	34,677	31,837
Investments in joint operations	3,514	4,386
Long-term promissory notes	52,929	56,875
Settlements on promissory notes with related party	—	40,968
Other	29,765	28,488
Total long-term investments	\$ 310,846	\$ 333,657

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

	Interest (percent) as of June 30, 2005 (unaudited)	Share in net income / (loss)	
		Six-months of 2005 (unaudited)	Six-months of 2004
Polar Lights Company LLC	50	\$ 13,098	\$ 22,414
CJSC Sevmorneftegaz	—	—	(1,070)
Rosneft-Stroytransgaz LLC	50	(6,336)	(213)
CJSC Kaspiy-1	45	(82)	—
CJSC Rosshelf	26	\$ (106)	\$ 143

CJSC Sevmorneftegaz

In January 2002, the Company, through OJSC Rosneft-Purneftegaz, and OJSC Gazprom, through CJSC Rosshelf, jointly established CJSC Sevmorneftegaz with equal shares in equity. The cost of investment in CJSC Sevmorneftegaz was US\$ 0.017 million. CJSC Sevmorneftegaz is primarily engaged in exploration and production activity on Prirazlomnoye oil field, Shtokmanovskoye, Etypurovskoe and Vyngayahinskoe gas-condensate fields, and Kharampurskoe oil and gas-condensate field.

In December 2004, it was resolved to sell the Company's share in the project to the other participant (the "Buyer") and full payment was received per shares purchase agreement. Title to shares in CJSC Sevmorneftegaz was transferred to the Buyer in the first half of 2005. Under the share purchase provisions, the Buyer had the right to notify the Company in writing, not later than the end of June 2005, of its intention to sell the acquired share back to the Company and the Company was obliged to take back and pay for such share. The Buyer didn't exercise his right for repurchase at the time stated in the contract, therefore, in June 2005, the Company recorded gain on the sale of interest in CJSC Sevmorneftegaz in the amount of US\$ 1,303 million.

OJSC Rosneft Oil Company

Notes to Interim Consolidated Financial Statements (continued)

9. Oil and Gas Properties, Net

Oil and gas properties as of June 30, 2005 and December 31, 2004 comprise the following:

	2005	2004
	(unaudited)	
Wells and related facilities	\$ 11,214,858	\$ 10,523,762
Mineral rights	7,446,807	7,446,807
Pipelines	922,526	802,243
Equipment under capital lease	146,693	144,207
Total cost	19,730,884	18,917,019
Less: accumulated depletion	(2,914,259)	(2,436,398)
Total oil and gas properties, net	\$ 16,816,625	\$ 16,480,621

Oil and gas properties include costs to acquire unproved properties in the amount of US\$ 1,041 million as of June 30, 2005 and December 31, 2004. The Company has certain plans to develop and assess the respective fields. The Company's management believes these costs are recoverable.

The Company's subsidiary OJSC Yuganskneftegaz in its operating activity uses wells and equipment for oil production under operating lease contracts from the companies controlled by the previous owner of OJSC Yuganskneftegaz. In 2005, all of the contracts that had expired were extended for a short term.

10. Property, Plant and Equipment, Net

Property, plant and equipment as of June 30, 2005 and December 31, 2004 comprise the following:

	2005	2004
	(unaudited)	
Service vessels	\$ 7,654	\$ 12,977
Buildings and constructions	1,839,284	1,729,267
Plant and machinery	1,060,359	1,071,114
Vehicles and other equipment	360,289	310,896
Equipment under capital lease	43,724	43,341
Total cost	3,311,310	3,167,595
Less: accumulated depreciation	(1,420,495)	(1,377,834)
Total property, plant and equipment, net	\$ 1,890,815	\$ 1,789,761

11. Construction-in-Progress

Construction-in-progress includes various construction projects and machinery and equipment delivered but not yet installed. Construction-in-progress as of June 30, 2005 and December 31, 2004 comprise the following:

	2005	2004
	(unaudited)	
Equipment to be installed	\$ 90,706	\$ 61,444
Buildings and constructions	236,613	272,748
Plant and machinery	148,729	96,791
Vehicles and other equipment	62,023	49,750
Total construction-in-progress	\$ 538,071	\$ 480,733

OJSC Rosneft Oil Company

Notes to Interim Consolidated Financial Statements (continued)

12. Capital Lease

Since 2003, the Company has entered into several leasing agreements for equipment and other assets. Equipment received under those leasing agreements is depreciated using the same methods of depreciation as used for the property, plant and equipment and oil and gas properties, which are owned by the Company.

The following is the analysis of the property, plant and equipment under capital lease:

	2005 (unaudited)	2004
Oil and gas properties	\$ 146,693	\$ 144,207
Less: accumulated depletion	(7,466)	(1,855)
Oil and gas properties, net	139,227	142,352
<i>Property, plant and equipment</i>		
Buildings and constructions	980	1,009
Plant and machinery	16,151	15,830
Vehicles and other equipment	26,394	26,305
Other	199	197
Total	43,724	43,341
Less: accumulated depreciation	(12,210)	(8,693)
Property, plant and equipment, net	31,514	34,648
Total carrying value of leased assets	\$ 170,741	\$ 177,000

The aggregate minimal capital lease payments are as follows:

	2005 (unaudited)
2005	\$ 13,743
2006	12,876
2007	8,172
2008	6,456
2009	8,253
2010 and after	4,056
	53,556
Imputed interest	(9,027)
Present value of capital lease payments	\$ 44,529

The Company provided financing to the leasing company for the purchase of equipment, which was then leased to the Company. Under the agreement, the Company has the right to offset the lease obligations against promissory notes receivable. As of June 30, 2005, lease obligations in the amount of US\$ 25.1 million were netted against long-term promissory notes.

13. Other Non-Current Assets

Other non-current assets mainly include a loan to OJSC Sibur-Tumen with the carrying amount of US\$ 26.0 million and US\$ 24.9 million as of June 30, 2005 and December 31, 2004, respectively, restructured under amicable agreement and previously recognized as accounts receivable. This loan receivable is stated at amortized cost and is scheduled to be settled in 2013.

OJSC Rosneft Oil Company

Notes to Interim Consolidated Financial Statements (continued)

14. Accounts Payable and Accruals

Accounts payable and accruals as of June 30, 2005 and December 31, 2004 comprise the following:

	2005 (unaudited)	2004
Trade accounts payable	\$ 654,828	\$ 868,778
Salary, insurance and other benefits payable	81,943	80,546
Advances received	171,975	66,323
Dividends payable	80,320	15,652
Promissory notes payable	54,637	20,352
Banking customers deposits	358,345	194,970
Other	114,433	182,875
Total accounts payable and accruals	\$ 1,516,481	\$ 1,429,496

The Company's accounts payable are denominated primarily in RUR. Dividends payable represent dividends on preferred shares payable to subsidiaries' minority shareholders.

15. Short-Term Loans and Long-Term Debt

Short-term loans from banks and other organizations as of June 30, 2005 and December 31, 2004 comprise the following:

	2005 (unaudited)	2004
US\$ denominated		
Bank loans	\$ 325,062	\$ 346,719
Other borrowings	67,738	30,929
RUR denominated		
Bank loans	27,957	3,147
Other borrowings	532,754	501,640
	953,511	882,435
Current portion of long-term debt	1,533,039	998,458
CJSC Sevmorneftegaz shares repurchase liability	–	1,344,315
Raised funds for financing OJSC Yuganskneftegaz acquisition	1,288,127	1,441,732
Total short-term loans and current portion of long-term debt	\$ 3,774,677	\$ 4,666,940

Other RUR denominated borrowings include loans received by subsidiary Bank of the Company at the average interest rate of 2%, as well as OJSC Yuganskneftegaz promissory notes denominated in RUR issued by companies of the YUKOS Group, which were used to finance working capital requirements. Interest rate of the promissory notes varies from 0% to 18%.

The rate of interest on the Company's short-term loans denominated in US\$ was LIBOR plus 1.75% - 7% annually. The RUR denominated loans generally bear an annual interest rate of 8%.

OJSC Rosneft Oil Company

Notes to Interim Consolidated Financial Statements (continued)

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

The CJSC Sevmorneftegaz share repurchase liability represented prepayment under the contract of CJSC Sevmorneftegaz shares sale (see Note 8).

Long-term debt as of June 30, 2005 and December 31, 2004 comprises the following:

	2005 (unaudited)	2004
Bank loans – US\$ denominated	\$ 2,827,001	\$ 2,759,242
Loans – RUR denominated	520,172	420,862
Other long-term borrowings	201,798	363,182
	3,548,971	3,543,286
 Raised funds for financing OJSC Yuganskneftegaz acquisition	 6,010,488	 6,465,000
 Less current portion of long-term debt	 (1,533,039)	 (998,458)
Non-current portion of long term debt and borrowings	\$ 8,026,420	\$ 9,009,828

The US\$ denominated long-term loans bear the interest rate of LIBOR plus 1.25% to LIBOR plus 4%. The interest rate applicable to the syndicated loans raised in 2001 as a result of Eurobonds placement, with maturity date in November 2006, equals 12.92%. Outstanding balance of this loan was US\$ 155.7 million and US\$ 150.8 million as of June 30, 2005 and December 31, 2004, respectively.

Funds raised to finance OJSC Yuganskneftegaz acquisition include long-term state-owned bank loans bearing an annual interest rate of LIBOR plus 3% in the amount of US\$ 6,010 million and short-term state-owned bank loans bearing an 8% annual interest rate in the amount of US\$ 1,805 million. Short-term loans and borrowings were refinanced by long-term loans in the beginning of second quarter 2005 in the amount of US\$ 465 million; therefore, per SFAS 6 "*Classification of Short-Term Obligations Expected to Be Refinanced*" these obligations are recognized in long-term loans and borrowings.

RUR denominated loans include loans and interest free promissory notes of OJSC Yuganskneftegaz denominated in RUR and issued by the YUKOS Group companies. Interest rate on loans received is 9% per annum with maturity in 2007.

As of June 30, 2005, other long-term borrowings include promissory notes payable and banking customer deposits of the subsidiary bank.

As of June 30, 2005 and December 31, 2004, the Company's collateral for short-term and long-term bank loans were oil and gas properties in the amount of RUR 2,393.7 million (US\$ 83.5 million and US\$ 86.3 million at the exchange rate as of June 30, 2005 and December 31, 2004, respectively).

OJSC Rosneft Oil Company

Notes to Interim Consolidated Financial Statements (continued)

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

Certain loan agreements contain a number of covenants, which the Company is obliged to comply with. Those covenants include the Company's obligations to maintain certain financial ratios at an agreed level. As a result of raising finance for the purchase of OJSC Yuganskneftegaz and the consolidation of assets of OJSC Yuganskneftegaz with the Company's assets, certain covenants were violated; i.e. the ratio of consolidated gross debt to consolidated EBITDA (operating profit excluding DD&A and accretion expense) and the ratio of consolidated gross debt to consolidated tangible net assets. As of December 31, 2004, the long-term portion of the debt outstanding under the loan agreements, for which covenants have been violated, amounted to US\$ 1,661 million. In the third quarter of 2005, the Company received the creditors' approval of a waiver for covenants in violation and to change covenants in line with the Company's new structure and scope of activities. Therefore, the Company continues to classify the relevant outstanding amount as long-term debt. The creditors' approval on certain other conditions was granted on condition that, prior to December 31, 2005, the Company settles the OJSC Yuganskneftegaz contingencies related to the results of tax audits of prior periods and the guarantee claims of Societe General Bank (see Note 22).

Under certain loan agreements, the Company must maintain an export contract/aggregate debt outstanding ratio, i.e. Coverage Ratio, ranging from 125% to 130%. This requirement applies to outstanding debt of approximately US\$ 1,681 million and US\$ 1,746 million as of June 30, 2005 and December 31, 2004, respectively. The above covenant obliges the Company to maintain firm sales contracts settled in US\$ for which committed export volumes are calculated on the basis of minimum prices stipulated by the loan documentation. Such export volumes should correspond to the coverage ratio. As a requirement, the terms of concluding such covered contracts give the lender an express right of claim for contractual revenue which must be remitted directly to transit currency (US\$ denominated) accounts with those banks in case of the Company's default on timely repayment of debt.

The aggregate maturity of long-term debt outstanding (including OJSC Yuganskneftegaz refinancing) at June 30, 2005 is as follows (assuming the debt will not be called by creditors ahead of scheduled maturities):

	2005 (unaudited)
2005	\$ 628,526
2006	1,980,960
2007	1,997,680
2008	1,638,622
2009	1,471,610
2010 and after	1,842,061
Total long-term debt	\$ 9,559,459

OJSC Rosneft Oil Company

Notes to Interim Consolidated Financial Statements (continued)

16. Shareholder's Equity

As of December 31, 2004, the Company's entire common shares were held by the Government of the Russian Federation. In June 2005, the Company's entire shares were contributed to the charter capital of OJSC Rosneftegaz, wholly owned by the State. In accordance with Russian Accounting Regulations, earnings available for dividends are limited to current-year income, retained earnings and other income, denominated in RUR, after certain deductions.

In June 2005, the annual general meeting of shareholders declared dividends on common shares of RUR 1,755 million or US\$ 61.2 million for 2004 at the exchange rate on the date of that decision, or US\$ 0.67 per share.

17. Accrued Income and Other Taxes

Accrued income and other taxes as of June 30, 2005 and December 31, 2004, comprise the following:

	2005 (unaudited)	2004
Mineral extraction tax	\$ 1,106,931	\$ 994,224
Value added tax	325,417	282,577
Excise tax	44,112	14,173
Personal income tax	7,041	12,639
Property tax	25,094	23,710
Income tax	296,250	216,154
Other	10,484	16,621
Total accrued income and other taxes	\$ 1,815,329	\$ 1,560,098

18. Asset Retirement Obligations

The movement of asset retirement obligations is as follows:

	2005 (unaudited)	2004
Asset retirement obligations as of period beginning	\$ 554,992	\$ 126,488
Recognition of additional liabilities for new wells	2,509	4,579
Accretion expense	16,919	8,490
Changes in estimates	107,419	28,835
Assumed OJSC Yuganskneftegaz obligation	–	386,600
Change in provision upon well abandonment	(388)	–
Asset retirement obligations as of period end	\$ 681,451	\$ 554,992

OJSC Rosneft Oil Company

Notes to Interim Consolidated Financial Statements (continued)

19. Minority Interests

Minority owners' interests in the Company's subsidiaries as of June 30, 2005 and December 31, 2004 comprise the following:

Company	June 30, 2005 (unaudited)		December 31, 2004	
	Minority interest %	Minority interest share in net assets	Minority interest %	Minority interest share in net assets
OJSC Rosneft-Purneftegaz	16.91	\$ 366,203	16.91	\$ 194,301
OJSC Rosneft-Sakhalinmorneftegaz	35.38	225,569	35.63	221,623
OJSC Rosneft-Krasnodarneftegaz	4.54	17,584	49.22	100,605
OJSC Rosneft-Stavropolneftegaz	27.04	19,428	28.05	19,267
OJSC Rosneft-Tuapse Nefteproduct	62.00	135,868	62.00	129,689
OJSC Rosneft-Komsomolsky Refinery	20.02	11,695	22.69	12,607
OJSC Rosneft-Tuapse Refinery	20.27	11,645	18.49	10,529
OJSC Yuganskneftegaz	23.21	1,813,633	23.21	1,724,633
Other		116,042		122,179
Total		\$ 2,717,667		\$ 2,535,433

20. Revenues

Oil and gas sales include export customs duty of US\$ 1,848.2 million for the first six-months of 2005 and excise tax on gas of US\$ 0.039 million and export customs duty of US\$ 169 million for the first six-months of 2004. Refined products and processing fees include excise tax of US\$ 45.6 million and export customs duty of US\$ 295.2 million for the first six-months of 2005 and excise tax of US\$ 29 million and export customs duty of US\$ 70 million for the first six-months of 2004. Support services and other sales include excise tax of US\$ 0.043 million for the first six-months of 2005.

21. Taxes

Income taxes for the six-months ended June 30, 2005 and 2004 comprise the following:

	2005 (unaudited)		2004	
Current income tax expense	\$	919,082	\$	135,497
Deferred income tax benefit		(5,239)		(16,915)
Total provision for income taxes	\$	913,843	\$	118,582

The provision for income taxes represents the total income tax expense for the Company and each of its subsidiaries. The Company does not file a consolidated tax return, rather each legal entity files separate tax returns with various authorities.

OJSC Rosneft Oil Company

Notes to Interim Consolidated Financial Statements (continued)

21. Taxes (continued)

In addition to income tax, the Company pays other taxes as follows:

	2005	2004
	(unaudited)	
Social security	\$ 59,264	\$ 53,221
Transport tax	688	412
Mineral extraction tax	1,984,465	306,761
Land tax	7,350	6,299
Property tax	41,092	21,510
Excise tax	88,954	19,331
Fee for using word Russia in the Company name	–	5,561
Tax fines and payments	8,060	1,147
Other taxes and payments	9,937	3,155
Taxes other than income tax	\$ 2,199,810	\$ 417,395

22. Commitments and Contingencies

Russian Business Environment

The Russian economy, while deemed to be of market status, continues to display certain traits of a market in transition, for example inflation is not low enough and the existence of currency controls, which cause the national currency to be illiquid outside of Russia. 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 the significant effect on the Company's industry include the following issues: rights of use of subsurface resources, site remediation, transportation and export, corporate governance, taxation etc.

Taxation Contingencies

Legislation and regulations regarding taxation and foreign currency transactions 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.

During 2004 several tax audits of OJSC Yuganskneftgaz took place and their results have been appealed in the court (see "Litigation" caption below).

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 fines are levied when an understatement of tax liability is discovered. As a result, penalties and interest can result in amounts higher than unreported taxes.

OJSC Rosneft Oil Company

Notes to Interim Consolidated Financial Statements (continued)

22. Commitments and Contingencies (continued)

Programs in Field Development, Exploration, and Upgrading Refining and Distribution Entities

The Company and its business units are engaged in the field development and exploration activities, as well as in upgrading its refining and distribution entities. According to the management's estimates, in the second six-months of 2005 the amount of expenses will total US\$ 866 million for production and exploration entities and US\$ 78 million for refining and distribution entities. Depending on the market situation, the actual expenses may differ from the above estimates.

Due to the transfer of OJSC Rosneft-Tuapse Refinery under the complete control of the Company (immediately after the purchase of additional 40% shares of this enterprise from minority shareholders at the end of 2004), 100% of its crude oil supplies come from the Company. This also facilitated the launch of large-scale work aimed at the modernization of the refinery worth approximately US\$ 700 million.

This fundamental modernization of the refinery provides for the construction of an almost new modern refinery whose first phase will have a capacity of 6 million tons, as well as the establishment of an environmental complex.

The reconstruction is aimed at increasing commercial efficiency, increasing petroleum product yield ratio from 60% to 90%; increasing the output of light petroleum products by 1.2 million tons per year; increasing the capacity (volume of primary oil processing) by up to 2 million tons per year.

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

Pension Plans

The Company contributed US\$ 6.7 million and US\$ 6 million to the corporate Pension Fund in the first six-months of 2005 and the first six-months of 2004, respectively.

Insurance Matters

The Company insured its assets through the insurance company SK Neftepolis LLC (see Note 4).

As of June 30, 2005 and December 31, 2004 the amount of coverage on assets for such insurance amounted to US\$ 1,157 million and US\$ 661 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 Consolidated Financial Statements (continued)

22. Commitments and Contingencies (continued)

Guarantees and Indemnity

As of June 30, 2005, the Company provided certain guarantees to secure bank loans.

Beneficiary Bank	Loan debtor	Maturity date	Original loan amount	Claimed amount as of June 30, 2005
Societe Generale S.A.	OJSC YUKOS	May 29, 2009	\$ 1,000,000	\$ 472,788
Societe Generale S.A.	OJSC YUKOS	May 29, 2009	\$ 1,600,000	\$ 655,725

Societe Generale S.A. claimed outstanding liabilities on loans from OJSC Yuganskneftegaz. For the loan in the amount of US\$ 1,000 million the claim was also addressed to other guarantors, which are not Rosneft group companies.

In May 2005, a law suit was filed in London against OJSC Yuganskneftegaz for recovery of outstanding amount of US\$ 662 million pertaining to US\$ 1,600 million loan.

The Company management believes that the risk of any payments under the guarantees related to the loan principle is remote.

The Company has agreed to indemnify Oil and Natural Gas Corporation ("ONGC") for losses in the event the Russian PSA Participants lose their equity interest in the project and provided to ONGC the shares of the Russian PSA Participants as a security of this guarantee.

Litigation

In April 2004, the Nenets Autonomous Area ("NAA") Administration filed a suit in the Moscow Arbitration Court against OJSC Northern Oil for recovery of US\$ 19 million principal obligation (which is a recorded obligation) and US\$ 12 million penalty for the late payment of contributions to the social and economic development of the NAA under the license agreement with OJSC Northern Oil.

Earlier, in February 2003, OJSC Northern Oil signed an addendum to the license agreement on restructuring of contributions to the social and economic development of NAA. By the Ruling of the Moscow Arbitration Court the Company shall pay to the NAA Administration US\$ 19 million of the principal amount and penalty of US\$ 1 million. The rest of the claim was rejected. The Company prepared an appeal to be submitted to the Arbitration Court in order to challenge the ruling of the first instance court. The decision of appeals instance of Moscow's Arbitration Court was to reject the complaint. The amount of liabilities as of December 31, 2004, was recorded as other accounts payable in the consolidated financial statements. The Company claimed the appeal on error which was satisfied by the Federal Arbitration Court Resolution of February 15, 2005. However on May 31, 2005 Moscow's Arbitration Court obliged OJSC Northern Oil to pay US\$ 19 million of principal amount of license payments and penalty in amount of US\$ 5.6 million. An appeal was filed that was satisfied by the Resolution of the Ninth Arbitration Court of Appeal on September 1, 2005; the license agreement clauses dealing with contributions to NAA Administration were recognized null (void). Based on this Resolution, all previously accrued obligations were reversed in these interim consolidated financial statements.

In October, 2005, the NAA Administration filed a cassation appeal against the Resolution of the Ninth Arbitration Court of Appeal. The Company's management believes that the probability of the case not being ruled in favor of OJSC Northern Oil is remote.

OJSC Rosneft Oil Company

Notes to Interim Consolidated Financial Statements (continued)

22. Commitments and Contingencies (continued)

Litigation (continued)

As of June 30, 2005, OJSC Yuganskneftegaz has disputes with the tax authorities on decisions issued as a result of tax audits in the total amount of US\$ 4,691.6 million. In respect of US\$ 3,030.8 million US\$ the management believes the probability of the tax authorities decisions being upheld is low. With respect to the remaining amounts, the payments to tax authorities is assessed as "possible". Currently, hearings are suspended waiting expert assessment of "market prices" of oil, which is imminent to determine the amount of possible payment with sufficient degree of certainty.

In October 2005, the Moscow Arbitration Court satisfied the claim of OJSC Yuganskneftegaz and resolved that the resolution passed by the Federal Tax Service Interregional Tax Inspectorate # 1 in charge of major taxpayers according to which additional taxes of RUR 5.9 billion (US\$ 205.8 million at the exchange rate as of June 30, 2005) were assessed for 1999 on OJSC Yuganskneftegaz, was not justified.

As of June 30, 2005 OJSC Yuganskneftegaz received claims for the total amount of US\$ 14.6 million. For claims for the total amount of RUR 306 million (US\$ 10.7 million) amicable agreements were concluded.

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 litigations will not significantly affect the operating results or financial position of the Company.

License Agreements

In accordance with license agreements the Company's subsidiaries are obliged to conduct various environmental programs. For these purposes the Company has to expend approximately US\$ 128.4 million over the period of development of these oil fields.

Oil Supplies

In January 2005, the Company entered into a long-term contract until 2010 for export supplies of crude oil in the amount of 48.4 million tons in total 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 for the first six-months of 2005 and 2004, in accordance with SFAS 131 *"Disclosures about Segments of an Enterprise and Related Information"*. The Company determined 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 segments explore, find, develop and produce crude oil and natural gas. The refinery, marketing and distribution segments process crude oil and other hydrocarbons into refined products and purchase, sell, transport crude oil and refined petroleum products. Corporate finance and other segments include banking and finance services, drilling services, vessel hire management, software support 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.

OJSC Rosneft Oil Company

Notes to Interim Consolidated Financial Statements (continued)

23. Segment Information (unaudited) (continued)

The significant accounting policies applied to each segment are consistent with the accounting policies applied to the interim consolidated financial statements. Intersegment sales and services are conducted at transfer prices between the Company and its subsidiaries. Intersegment receivables represent outstanding balances between the Group companies, arising in the normal course of business. The Company allocates certain profits, losses and assets for its subsidiaries, which operate in various segments, in proportion to gross revenues these subsidiaries earn from activity of each segment. The Company and its subsidiaries operated within the Russian Federation. The Company had crude oil export sales of US\$ 6,199 million and US\$ 1,080 million in the first six-months of 2005 and 2004, respectively. The Company had oil products export sales of US\$ 1,818 million and US\$ 472 million in the first six-months of 2005 and 2004, respectively.

Operating segments in the first six-months of 2005:

	Exploration and production	Refining, marketing and distribution	Finance and other	Consolidated
Total revenues	\$ 9,096,701	\$ 3,455,657	\$ 2,021,622	\$ 14,573,980
Less: intersegmental revenues	(2,667,180)	(186,093)	(1,856,959)	(4,710,232)
Revenues from external customers	<u>\$ 6,429,521</u>	<u>\$ 3,269,564</u>	<u>\$ 164,663</u>	<u>\$ 9,863,748</u>
Operating income	<u>\$ 1,336,601</u>	<u>\$ 939,774</u>	<u>\$ 477,007</u>	<u>\$ 2,753,382</u>
Depreciation, depletion and amortization	\$ 560,158	\$ 34,928	\$ 5,273	\$ 600,359
Total assets	\$ 23,581,096	\$ 2,058,188	\$ 1,372,581	\$ 27,038,865

Operating segments in the first six-months of 2004:

	Exploration and production	Refining, marketing and distribution	Finance and other	Consolidated
Total revenues	\$ 1,543,914	\$ 1,095,526	\$ 272,245	\$ 2,911,685
Less: intersegmental revenues	(359,841)	(60,507)	(190,338)	(610,686)
Revenues from external customers	<u>\$ 1,184,073</u>	<u>\$ 1,035,019</u>	<u>\$ 81,907</u>	<u>\$ 2,300,999</u>
Operating income	<u>\$ 262,155</u>	<u>\$ 239,671</u>	<u>\$ 24,545</u>	<u>\$ 526,371</u>
Depreciation, depletion and amortization	\$ (146,167)	\$ (26,498)	\$ (10,536)	\$ (183,201)
Total assets	\$ 4,651,077	\$ 1,568,664	\$ 1,011,279	\$ 7,231,020

24. Subsequent Events

In July 2005, a five-year loan in the amount of US\$ 2 billion was received from a syndicate of major foreign banks. The loan bears the floating interest rate, is payable in equal monthly installments and is secured by export oil shipments.

In third quarter of 2005, the Company signed an agreement with minority shareholder in OJSC Selkupneftegaz to purchase 34% interest in this company. Upon completion of the deal, the Company's interest in OJSC Selkupneftegaz will total 99%.

In September 2005, the sale of 85% of the shares in SK Neftepolis LLC insurance company was completed (Note 4) for the consideration of US\$ 12.9 million.

Refer to Note 15 for other subsequent events.