ROSNEFT

OIL COMPANY

OPEN JOINT STOCK COMPANY

Rosneft Oil Company

Interim Condensed Consolidated Financial Statements (Unaudited)

Three and six months ended June 30, 2010 and 2009

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Contents

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Independent accountant's report

Shareholders and the Board of Directors
of Rosneft Oil Company

We have reviewed the accompanying consolidated balance sheet of Rosneft Oil Company, an open joint stock company ("the Company"), as of June 30, 2010, and the related consolidated statements of income and comprehensive income for the three-month and six-month periods ended June 30, 2010 and 2009, and the consolidated statements of cash flows for the six-month periods ended June 30, 2010 and 2009. This interim condensed consolidated financial information is the responsibility of the Company's management.

We conducted our review in accordance with the standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim condensed consolidated financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Company as of December 31, 2009, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for the year then ended, and in our report dated February 1, 2010 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2009, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Ernst & Young LLC

August 2, 2010

Rosneft Oil Company

Consolidated Balance Sheets

(in millions of US dollars, except share amounts)

	Notes	June 30, 2010 (unaudited)	December 31, 2009
ASSETS			
Current assets:			
Cash and cash equivalents	3	**3,134**	1,997
Restricted cash		**30**	20
Short-term investments	4	**3,914**	2,508
Accounts receivable, net	5	**7,539**	6,458
Inventories	6	**1,916**	1,886
Deferred tax assets		**213**	174
Prepayments and other current assets	7, 21	**1,718**	2,126
Total current assets		**18,464**	15,169
Non-current assets:			
Long-term investments	8	**2,931**	3,744
Long-term bank loans granted, net of allowance of US$ 28 and US$ 17, respectively		**366**	326
Property, plant and equipment, net	9	**59,056**	57,704
Goodwill		**4,507**	4,507
Intangible assets, net		**780**	811
Deferred tax assets		**128**	125
Other non-current assets	10	**735**	846
Total non-current assets		**68,503**	68,063
Total assets		**86,967**	83,232
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	11	**4,446**	3,697
Short-term loans and current portion of long-term debt	12	**6,866**	7,838
Income and other tax liabilities	13	**1,912**	1,627
Deferred tax liabilities		**96**	77
Other current liabilities	21	**254**	204
Total current liabilities		**13,574**	13,443
Asset retirement obligations		**2,032**	1,772
Long-term debt	12	**15,314**	15,669
Deferred tax liabilities		**4,808**	5,197
Other non-current liabilities	17	**1,370**	1,614
Total non-current liabilities		**23,524**	24,252
Equity:			
Common stock par value 0.01 RUB (shares outstanding: 9,597.43 million as of June 30, 2010 and December 31, 2009)		**20**	20
Treasury shares (at acquisition cost: 1,000.75 million as of June 30, 2010 and December 31, 2009)		**(7,525)**	(7,525)
Additional paid-in capital		**13,108**	13,108
Other comprehensive loss	2	**(22)**	(22)
Retained earnings		**43,443**	39,250
Total shareholders' equity		**49,024**	44,831
Noncontrolling interests		**845**	706
Total equity		**49,869**	45,537
Total liabilities and equity		**86,967**	83,232

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

Rosneft Oil Company

Consolidated Statements of Income and Comprehensive Income

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

	Notes	Three months ended June 30, 2010 (unaudited)	Three months ended June 30, 2009 (unaudited)	Six months ended June 30, 2010 (unaudited)	Six months ended June 30, 2009 (unaudited)
Revenues					
Oil and gas sales	20	**8,604**	5,696	**16,651**	9,884
Petroleum products and petrochemicals sales	20	**6,454**	4,933	**12,764**	8,753
Support services and other revenues		**373**	318	**777**	574
Total		**15,431**	10,947	**30,192**	19,211
Costs and expenses					
Production and operating expenses		**1,119**	1,027	**2,183**	1,847
Cost of purchased oil, gas and petroleum products		**634**	489	**1,130**	784
General and administrative expenses		**359**	366	**729**	676
Pipeline tariffs and transportation costs		**1,752**	1,251	**3,516**	2,503
Exploration expense		**81**	117	**139**	197
Depreciation, depletion and amortization		**1,348**	1,012	**2,620**	1,992
Accretion expense		**29**	22	**54**	41
Taxes other than income tax	16	**2,686**	1,932	**5,268**	3,279
Export customs duty	15	**4,055**	2,191	**8,039**	4,033
Total		**12,063**	8,407	**23,678**	15,352
Operating income		**3,368**	2,540	**6,514**	3,859
Other (expenses)/income					
Interest income		**124**	81	**249**	188
Interest expense		**(180)**	(74)	**(342)**	(239)
Loss on disposal of non-current assets		**(25)**	(35)	**(55)**	(50)
Gain on disposal of investments		**8**	13	**18**	18
Equity share in affiliates' profits/(loss)	8	**36**	(26)	**68**	16
Dividends and loss from joint ventures		**(6)**	(6)	**(6)**	(6)
Other (loss)/income, net		**(21)**	(113)	**8**	8
Foreign exchange gain/(loss)		**15**	(391)	**10**	407
Total other (expenses)/income		**(49)**	(551)	**(50)**	342
Income before income tax		**3,319**	1,989	**6,464**	4,201
Income tax	16	**(763)**	(396)	**(1,416)**	(523)
Net income		**2,556**	1,593	**5,048**	3,678
Net (income)/loss attributable to noncontrolling interests		**(80)**	19	**(141)**	(6)
Net income attributable to Rosneft		**2,476**	1,612	**4,907**	3,672
Other comprehensive (loss)/income	2	**(7)**	7	**–**	6
Comprehensive income		**2,469**	1,619	**4,907**	3,678
Net income attributable to Rosneft per share (in US$) – basic and diluted		**0.26**	0.17	**0.51**	0.38
Weighted average number of shares outstanding (millions)		**9,597**	9,598	**9,597**	9,598

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

Rosneft Oil Company

Consolidated Statements of Cash Flows

(in millions of US dollars)

	Notes	Six months ended June 30, 2010 (unaudited)	Six months ended June 30, 2009 (unaudited)
Operating activities			
Net income		**5,048**	3,678
Adjustments to reconcile net income to net cash provided by operating activities:			
Effect of foreign exchange		**(189)**	(698)
Depreciation, depletion and amortization		**2,620**	1,992
Dry hole costs		**20**	78
Loss on disposal of non-current assets		**55**	50
Deferred income tax benefit	16	**(285)**	(21)
Accretion expense		**54**	41
Equity share in affiliates' profits	8	**(68)**	(16)
Gain on disposal of investments		**(18)**	(18)
Increase in allowance for doubtful accounts and bank loans granted		**4**	12
Gain on extinguishment of promissory notes		**(149)**	(149)
Changes in operating assets and liabilities net of acquisitions:			
Increase in accounts receivable		**(923)**	(672)
Increase in inventories		**(30)**	(98)
Increase in restricted cash		**(10)**	(4)
Decrease in prepayments and other current assets		**408**	621
Decrease/(increase) other non-current assets		**28**	(19)
(Increase)/decrease in long-term bank loans granted		**(51)**	4
Increase/(decrease) in interest payable		**67**	(21)
Increase in accounts payable and accrued liabilities		**150**	158
Increase in income and other tax liabilities		**285**	479
Decrease in other current and non-current liabilities		**(189)**	(352)
Acquisition of trading securities		**(125)**	(314)
Proceeds from sale of trading securities		**480**	11
Net cash provided by operating activities		**7,182**	4,742

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

Rosneft Oil Company

Consolidated Statements of Cash Flows (continued)

(in millions of US dollars)

	Notes	Six months ended June 30, 2010 (unaudited)	Six months ended June 30, 2009 (unaudited)
Investing activities			
Capital expenditures		**(3,845)**	(3,387)
Acquisition of licenses		**(3)**	–
Acquisition of rights to use trademarks "Sochi 2014"		**(9)**	–
Proceeds from disposal of property, plant and equipment		**25**	14
Acquisition of short-term investments, including			
Held-to-maturity securities		**(1,301)**	(1,934)
Available-for-sale securities		**(352)**	(31)
Proceeds from redemption/sale of short-term investments, including			
Held-to-maturity securities		**721**	1,976
Available-for-sale securities		**53**	1
Acquisition of long-term investments, including			
Held-to-maturity securities		**(153)**	(41)
Available-for-sale securities		**(6)**	(808)
Proceeds from redemption/sale of long-term investments, including			
Held-to-maturity securities		**13**	1
Available-for-sale securities		**1**	–
Acquisition of entities, additional shares in subsidiaries and equity investees, net of cash acquired		**(6)**	–
Margin call deposit placed		–	(315)
Margin call deposit returned		–	1,208
Net cash used in investing activities		**(4,862)**	(3,316)
Financing activities			
Proceeds from short-term debt		**102**	155
Repayment of short-term debt		**(60)**	(6,395)
Proceeds from long-term debt		**1,394**	6,571
Repayment of long-term debt		**(2,566)**	(2,098)
Dividends paid to minority shareholders in subsidiaries		**(5)**	(1)
Net cash used in financing activities		**(1,135)**	(1,768)
Increase/(decrease) in cash and cash equivalents		**1,185**	(342)
Cash and cash equivalents at beginning of period		**1,997**	1,369
Effect of foreign exchange on cash and cash equivalents		**(48)**	(29)
Cash and cash equivalents at end of period		**3,134**	998
Supplementary disclosures of cash flow information			
Cash paid for interest		**277**	482
Cash paid for interest (net of amount capitalized)		**121**	222
Cash paid for income tax		**1,411**	545
Supplementary disclosure of non-cash activities			
Income tax offsets		–	288

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

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

1. Nature of Operations

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 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").

In June 2009, the Financial Accounting Standards Board ("FASB") issued the Accounting Standards Update ("ASU") 2009-01 ("ASU 2009-01"). ASU 2009-01 also issued as FASB Statement of Financial Accounting Standards ("SFAS") 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles,* is effective for financial statements issued after September 15, 2009. ASU 2009-01 requires that the FASB's Accounting Standards Codification ("ASC") become the single source of authoritative US GAAP principles recognized by the FASB. The Company adopted ASU 2009-01 effective July 1, 2009 and changed references to US GAAP in its interim condensed consolidated financial statements issued for the six months ended June 30, 2010. The adoption of ASU 2009-01 did not impact the Company's consolidated financial position or results of operations.

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 FASB ASC 270, *Interim Reporting*) and do not include all disclosures required by US GAAP. The Company omitted disclosures which would substantially duplicate the information contained in its 2009 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 2009 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 2009 audited consolidated financial statements and the notes related thereto. In the opinion of management, the financial statements reflect all adjustments of a normal and recurring nature necessary to present fairly the Company's consolidated financial position, results of operations and cash flows for the interim periods.

The results of operations for six months ended June 30, 2010 may not be indicative of the results of operations for the full year ended December 31, 2010. Subsequent events have been evaluated through August 2, 2010, the date these interim condensed consolidated financial statements were issued.

2. Significant Accounting Policies (continued)

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

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

Management Estimates

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

Foreign Currency Translation

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

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

As of June 30, 2010 and December 31, 2009, the CBR official rates of exchange were 31.20 rubles ("RUB") and 30.24 RUB per US$, respectively. Average rates of exchange in the first six months of 2010 and 2009 were 30.07 RUB and 33.07 RUB per US$, respectively. As of August 2, 2010, the official rate of exchange was 30.19 RUB per US$.

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

2. Significant Accounting Policies (continued)

Principles of Consolidation

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

Business Combinations

The Company accounts for its business combinations according to FASB ASC 805, *Business Combinations,* and FASB ASC 810, *Consolidation*. The Company applies the acquisition method of accounting and recognizes the assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, licence and other asset lives and market multiples, among other items.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the consideration transferred plus the fair value of any noncontrolling interest in the acquiree at the acquisition date over the fair values of the identifiable net asset acquired. The excess of the fair values of the identifiable net asset acquired over the consideration transferred plus the fair value of any noncontrolling interest in the acquiree should be recognized as a gain in consolidated statements of income and comprehensive income on the acquisition date.

For investees accounted for under the equity method, the excess of the cost to acquire a share in those entities over the fair value of the acquired share of net assets as of the acquisition date is treated as embedded goodwill.

In accordance with requirements of FASB ASC 350, *Intangibles – Goodwill and Other*, goodwill and intangible assets with indefinite useful lives are not amortized. Instead, they are tested at least annually for impairment. The impairment loss is recognized when the carrying value of goodwill exceeds its fair value. The impairment test is comprised of two stages. The first step compares the fair value of the reporting unit with its carrying value, including goodwill. If the fair value of the reporting unit exceeds its carrying value, the goodwill of the reporting unit is considered not impaired. Otherwise, the second step of the goodwill impairment test shall be performed to measure the amount of impairment loss resulting from the excess of the reporting unit's carrying value over its fair value. The loss recognized cannot exceed the carrying amount of goodwill. Subsequent reversal of a previously recognized goodwill impairment loss is prohibited.

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

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments

FASB ASC 825, *Financial Instruments,* defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Financial assets and financial liabilities recognized in the accompanying consolidated balance sheets include cash and cash equivalents, short-term and long-term investments, accounts receivable and payable, short-term and long-term debt and other current and non-current assets and liabilities.

The Company, using available market information, management's estimates and appropriate valuation methodologies, has determined the approximate fair values of financial instruments.

Income Tax

The Company follows the provisions of FASB ASC 740-270, *Income Taxes (Interim 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 (20%) and includes estimates of the annual tax effect of permanent differences and the realization of certain deferred tax assets. The expected effective tax rate may vary during the year.

Derivative Instruments

All derivative instruments are recorded on the consolidated balance sheets at fair value in either other current assets, other non-current assets, other current liabilities or other non-current liabilities. Recognition and classification of a gain or loss that results from recognition of a derivative instrument at fair value depends on the purpose for issuing or holding the derivative instrument. Gains and losses from derivatives that are not accounted for as hedges under FASB ASC 815, *Derivatives and Hedging*, are recognized immediately in the consolidated statements of income and comprehensive income.

Comprehensive Income

The Company applies FASB ASC 220, *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.

For the six months ended June 30, 2010 and 2009, the Company recorded other accumulated comprehensive income (net of tax) in the amount of US$ 0 million and US$ 6 million, respectively, which represent an unrealized financial result from the revaluation of available-for-sale investments.

Accounting for Buy/Sell Contracts

Paragraphs 845-10-15-5 through 15-9 of FASB ASC 845, *Nonmonetary Transactions,* require that two or more legally separate exchange transactions with the same counterparty, including buy/sell transactions, should be combined and considered as a single arrangement, when the transactions are entered into "in contemplation" of one another.

Repurchase and Resale Agreements

Securities sold under agreements to repurchase ("REPO") and securities purchased under agreements to resell ("reverse REPO") generally do not constitute a sale for accounting purposes of the underlying securities, and so are treated as collateralized financing transactions. Interest paid or received on all REPO and reverse REPO transactions is recorded in "Interest expense" or "Interest income" at the contractually specified rate using the effective interest method.

2. Significant Accounting Policies (continued)

Changes in Accounting Policies

In August 2009, the FASB issued ASU 2009-05, *Fair Value Measurements and Disclosures (Topic 820): Measuring Liabilities at Fair Value* ("ASU 2009-05") that amends Subtopic 820-10, *Fair value measurements and disclosures, Overall* of Topic 820*,* of the FASB Codification. ASU 2009-05 provides clarification that in circumstances in which a quoted price in active market is not available, a reporting entity is required to use one or more of the following valuation techniques: valuation based on quoted price of identical liability when traded as an asset; quoted prices of similar liabilities or similar liabilities when traded as an assets, or any other technique consistent with the principles of Topic 820, such as present value technique. ASU 2009-05 also clarifies that a reporting entity is not required to include a separate input to existence of restriction that prevents the transfer of the liability. ASU 2009-05 is effective for the first reporting period (including interim periods) beginning after issuance. Early application is permitted if financial statements for prior period have not been issued. The Company adopted ASU 2009-05 from January 1, 2010. Adoption of ASU 2009-05 did not have a material impact on the Company's consolidated financial position and results of operations.

In January 2010, the FASB issued ASU 2010-6, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* ("ASU 2010-6") that amends Topic 820, *Fair Value Measurements and Disclosures*, of the FASB Codification. ASU 2010-6 requires separate disclosure of significant transfers between Level 1 and Level 2 fair value measurement inputs and a description of the reasons for the transfers. Entity is also required to present separately information about purchases, issuance, and settlements in the reconciliation for fair value measurements using Level 3 inputs. ASU 2010-6 amends existing disclosure requirements in regards of level of disaggregation and inputs and valuation techniques. ASU 2010-6 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about activity in Level 3 fair value measurements that are effective for interim and annual periods beginning after December 15, 2010. The Company adopted ASU 2010-06 from January 1, 2010, except for the disclosures about activity in Level 3 fair value measurements that will be adopted from January 1, 2011. Adoption of ASU 2010-06 did not have a material impact on the Company's consolidated financial position and results of operations.

Recent Accounting Standards

In March 2010, the FASB issued ASU 2010-11, *Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives* ("ASU 2010-11") that amends Topic 815, *Derivatives and Hedging*, of the FASB Codification. ASU 2010-11 clarifies that scope exception for embedded credit derivative features relates to the transfer of credit risk in the form of subordination of one financial instrument to another. ASU 2010-11 is effective at the beginning of the first fiscal quarter beginning after June 15, 2010. Early adoption is permitted at the beginning of each first fiscal quarter beginning after issuance of ASU 2010-11. The Company will adopt ASU 2010-11 from July 1, 2010. The Company does not expect ASU 2010-11 to have a material impact on the Company's consolidated financial position and results of operations.

2. Significant Accounting Policies (continued)

Recent Accounting Standards (continued)

In July 2010, the FASB issued ASU 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* ("ASU 2010-20") that amends Topic 310, *Receivables,* of the FASB Codification. ASU 2010-20 amends existing disclosures and requires the entity to provide additional disclosures to facilitate financial statement users' evaluation of the following: 1) the nature of credit risk inherent in the entity's portfolio of financing receivables; 2) how that risk is analyzed and assessed in arriving at the allowance for credit losses; 3) the changes and reasons for those changes in the allowance for credit losses. ASU 2010-20 also introduces a new terminology, in particular, the term *financial receivables*. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in ASU 2010-20 encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. The Company will initially adopt ASU 2010-20 as of the end of annual reporting period ending December 31, 2010. The Company does not expect ASU 2010-20 to have a material impact on the Company's consolidated financial position and results of operations.

3. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	June 30, 2010 (unaudited)	**December 31, 2009**
Cash on hand and at bank accounts in RUB	**307**	624
Cash on hand and at bank accounts in foreign currencies	**1,277**	748
Deposits	**1,431**	612
Other	**119**	13
Total cash and cash equivalents	**3,134**	1,997

Cash accounts denominated in foreign currencies are primarily in US$.

Deposits are interest bearing and denominated primarily in RUB.

As part of its cash management and credit risk function, the Company regularly evaluates the creditworthiness of financial and banking institutions where it deposits cash. Banking relationships are primarily with Russian subsidiaries of international banking institutions and certain large Russian banks.

4. Short-Term Investments

Short-term investments comprise the following:

	June 30, 2010 (unaudited)	**December 31, 2009**
Short-term loans granted	–	1
Loans to related parties	**11**	12
Reverse repurchase agreements	–	22
Structured deposits (Note 21)	**1,732**	507
State and corporate bonds held-to-maturity	**33**	–
Promissory notes held-to-maturity	**86**	81
Trading securities		
Promissory notes	–	38
State and corporate bonds	**135**	449
Other	**1**	4
Available-for-sale securities	**508**	210
Bank deposits	**1,408**	1,184
Total short-term investments	**3,914**	2,508

RUB-denominated short-term promissory notes which are held-to-maturity bear interest of 15% and mature in February 2011. The fair value of held-to-maturity securities approximates their carrying value recognized in the financial statements.

As of June 30, 2010, trading securities include state and municipal bonds with nominal interest rates ranging from 6.9% to 18.0% and maturities ranging from December 2012 to February 2036 and corporate bonds issued by large Russian corporations with maturities ranging from December 2010 to November 2016 and interest rates ranging from 7.7% to 19.0%.

Available-for-sale securities include state and corporate bonds and corporate promissory notes. State bonds represent federal loan bonds issued by the Ministry of Finance of the Russian Federation with maturities ranging from July 2010 to August 2018 and nominal interest rates ranging from 6.1% to 10.0% and bonds issued by CBR with weighted average effective interest rate of 4.2% and with maturities ranging from September 2010 to December 2010. The corporate bonds represent bonds issued by large Russian corporations with maturities ranging from July 2010 to August 2014 with interest rates ranging from 7.6% to 18.0%. As of June 30, 2010, the corporate bonds in the amount of US$ 61 million were pledged under repurchase agreements (see Note 12). Corporate promissory notes represent promissory notes with nominal interest rate of 10.0% maturing in December 2010 and nominally interest-free promissory notes with weighted average effective interest rate of 3.3% with maturity in June 2015. Amortized cost bases of available-for-sale securities approximate their fair values.

Structured deposits are denominated in US$ and have interest rates ranging from 6.22% to 7.75%.

The bank deposits are primarily denominated in US$ and have interest rates ranging from 6.5% to 8.0%.

5. Accounts Receivable, net

Accounts receivable comprise the following:

	June 30, 2010 (unaudited)	December 31, 2009
Trade receivables	**4,024**	2,958
Value-added tax and excise receivable (Note 19)	**2,129**	2,269
Other taxes	**226**	211
Banking loans to customers	**642**	753
Acquired receivables	**5**	30
Other	**597**	328
Less: allowance for doubtful accounts	**(84)**	(91)
Total accounts receivable, net	**7,539**	6,458

The Company's trade accounts receivable are denominated primarily in US$. Credit risk is managed through the use of letters of credit. Credit risk in domestic sales of petroleum products is managed through the use of bank guarantees for receivables repayment.

6. Inventories

Inventories comprise the following:

	June 30, 2010 (unaudited)	December 31, 2009
Materials and supplies	**521**	457
Crude oil and gas	**526**	502
Petroleum products and petrochemicals	**869**	927
Total inventories	**1,916**	1,886

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

7. Prepayments and Other Current Assets

Prepayments and other current assets comprise the following:

	June 30, 2010 (unaudited)	December 31, 2009
Prepayments to suppliers	**580**	705
Prepaid customs duties	**1,034**	1,334
Insurance prepayments	**22**	12
Derivatives (Note 21)	**5**	3
Other	**77**	72
Total prepayments and other current assets	**1,718**	2,126

Prepaid customs duties primarily represent export duties related to the export of crude oil and petroleum products (see Note 15).

8. Long-Term Investments

Long-term investments comprise the following:

	June 30, 2010 (unaudited)	December 31, 2009
Equity method investments		
OJSC Tomskneft VNK	**1,373**	1,488
Polar Lights Company LLC	**78**	84
JV Rosneft-Shell Caspian Ventures Ltd.	**17**	16
OJSC Verkhnechonskneftegaz	**252**	234
CJSC Vlakra	**110**	110
OJSC Kubanenergo	**130**	167
Other	**180**	171
Total equity method investments	**2,140**	2,270
Available-for-sale securities		
OJSC TGK-11	**20**	20
Long-term promissory notes	**–**	4
Other securities in Company's banks	**16**	14
Bank deposits – US$ denominated	**–**	833
Held-to-maturity securities		
Russian government bonds	**50**	36
Long-term loans to equity investees	**679**	550
Cost method investments	**26**	17
Total long-term investments	**2,931**	3,744

US$ denominated deposits placed in June 2009 in a state controlled bank for two years were reclassified to short-term investments in accordance with their maturities (see Note 4).

Long-term loans to equity investees generally have contractual maturities from 3 to 8 years and also include a loan in the amount of US$ 113 million provided by the Company in April 2010 to National Oil Consortium ("NOC"). The Company's share in NOC is 20%. NOC is involved in geological exploration of the block Junin-6 in Venezuela.

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

		Share in profits/(loss) of equity investees	
	Participation interest (percentage) as of June 30, 2010	Six months ended June 30, 2010 (unaudited)	Six months ended June 30, 2009 (unaudited)
Polar Lights Company LLC	**50.00**	**5**	9
OJSC Verkhnechonskneftegaz	**25.94**	**18**	(5)
JV Rosneft-Shell Caspian Ventures Ltd.	**51.00**	**1**	1
OJSC Kubanenergo	**26.26**	**(37)**	(13)
OJSC Tomskneft VNK	**50.00**	**77**	65
Other	**various**	**4**	(41)
Total equity share in profits/(loss)		**68**	16

9. Property, Plant and Equipment, net

Property, plant and equipment comprise the following:

	Cost		Accumulated depreciation		Net carrying amount	
	June 30, 2010 (unaudited)	**December 31, 2009**	**June 30, 2010 (unaudited)**	**December 31, 2009**	**June 30, 2010 (unaudited)**	**December 31, 2009**
Exploration and production	**63,466**	60,408	**(16,488)**	(14,423)	**46,978**	45,985
Refining, marketing and distribution	**13,933**	13,452	**(4,200)**	(3,899)	**9,733**	9,553
Other activities	**3,079**	2,809	**(734)**	(643)	**2,345**	2,166
Total property, plant and equipment	**80,478**	76,669	**(21,422)**	(18,965)	**59,056**	57,704

10. Other Non-Current Assets

Other non-current assets comprise the following:

	June 30, 2010 (unaudited)	**December 31, 2009**
Advance payment in favour of Factorias Vulcano S.A.	**–**	90
Advances paid for capital construction	**550**	553
Debt issue costs	**61**	75
Prepaid insurance	**8**	11
Long-term receivables (Note 19)	**22**	22
Other	**94**	95
Total other non-current assets	**735**	846

11. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities comprise the following:

	June 30, 2010 (unaudited)	**December 31, 2009**
Trade accounts payable	**1,576**	1,570
Salary and other benefits payable	**538**	436
Advances received	**338**	455
Dividends payable	**716**	3
Banking customer accounts	**890**	822
Accrued expenses	**207**	260
Other	**181**	151
Total accounts payable and accrued liabilities	**4,446**	3,697

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

12. Short-Term Loans and Long-Term Debt

Short-term loans and borrowings comprise the following:

	June 30, 2010 (unaudited)	December 31, 2009
Bank loans – RUB denominated	**12**	3
Customer deposits – foreign currencies	**113**	154
Customer deposits – RUB denominated	**273**	277
Promissory notes payable	**95**	81
Promissory notes payable – Yukos related	**1,274**	1,424
Borrowings – RUB denominated	**363**	365
Borrowings – RUB denominated – Yukos related	**672**	672
Repurchase agreements	**51**	–
	2,853	2,976
Current portion of long-term debt	**4,013**	4,862
Total short-term loans and borrowings and current portion of long-term debt	**6,866**	7,838

Customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary banks, denominated in RUB and foreign currencies. Customer deposits denominated in RUB and foreign currencies bear an interest rate ranging from 0.01% to 15.00%.

As of June 30, 2010, weighted average interest rate on promissory notes was 10.21%. The promissory notes are recorded at amortized cost.

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

RUB denominated borrowings are interest-free and were received from equity investees.

RUB denominated borrowings – Yukos related primarily include borrowings provided by Yukos Capital S.a.r.l., which bore interest of 9% and matured at the end of 2007 (see Note 19).

In the second quarter of 2010, the Company received cash under the repurchase agreements and recorded this transaction as secured financing. As of June 30, 2010 the amounts owned under these repurchase agreements were RUB 1,586 million (US$ 51 million at the CBR official exchange rate as of June 30, 2010) and were secured by the corporate bonds owned by the Company with the fair value of US$ 61 million (see Note 4).

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

Long-term debt comprises the following:

	June 30, 2010 (unaudited)	December 31, 2009
Bank loans – foreign currencies	**18,188**	18,767
Bank loans raised for funding the acquisition of OJSC Yuganskneftegaz – US$ denominated	**770**	1,415
Borrowings – US$ denominated	**2**	3
Borrowings – RUB denominated	**6**	22
Customer deposits – foreign currencies	**48**	55
Customer deposits – RUB denominated	**250**	208
Promissory notes payable	**63**	60
Promissory notes payable – Yukos related	**–**	1
	19,327	20,531
Current portion of long-term debt	**(4,013)**	(4,862)
Total long-term debt	**15,314**	15,669

The interest rates on the Company's long-term bank loans denominated in foreign currencies range from LIBOR plus 0.58% to LIBOR plus 3.25%. These bank loans are primarily secured by contracts for the export of crude oil.

As of June 30, 2010, 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% repayable in equal monthly installments. It is scheduled to be fully repaid in 2011. This loan is secured by the Company's receivables under a long-term export contract for the supply of crude oil (see Note 19).

Customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary banks, denominated in RUB and foreign currencies. The RUB-denominated deposits bear interest rates ranging from 1.75% to 15.0%. Deposits denominated in foreign currencies bear interest rates of 2.0% to 14.5%.

As of June 30, 2010, weighted average interest rate on promissory notes payable was 11.83%. The promissory notes are recorded at amortized cost.

During the first half of 2010, the Company wrote-off unclaimed promissory notes where statute of limitations expired and recognized gain in the amount of US$ 149 million in the consolidated statement of income and comprehensive income within other expenses, net.

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

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

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

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

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

- redeem, secure, discharge in full or restructure (and comply with any restructuring plans once it is agreed upon) all OJSC Yuganskneftegaz's tax liabilities by January 3, 2008;
- pay any arbitration award relating to Moravel Investments Ltd. litigation or the Yukos Capital S.a.r.l. litigation (see Note 19) 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 2008 and 2009. Additionally, in November and December 2007, the creditors waived certain possible violations and/or events of default under the loan agreements with respect to the loans payable to Yukos Capital S.a.r.l. by OJSC Tomskneft VNK and OJSC Samaraneftegaz, and to the condition related to OJSC Yuganskneftegaz's tax liabilities described above, effective through January 3, 2009, inclusively (see Note 19). In 2008, the Company fully restructured OJSC Yuganskneftegaz's tax liabilities (see Note 17). In November 2009, waivers with respect to the loans payable to Yukos Capital S.a.r.l. by OJSC Samaraneftegaz were granted up to the expiry dates of the respective long-term debt.

As of June 30, 2010, the Company is in compliance with all restrictive financial and other covenants contained within its loan agreements.

The scheduled aggregate maturity of long-term debt outstanding as of June 30, 2010 is as follows:

	(Unaudited)
Until December 31, 2010	**2,421**
2011	**2,914**
2012	**2,030**
2013	**707**
2014	**462**
2015 and after	**10,793**
Total long-term debt	**19,327**

13. Income and Other Tax Liabilities

Income and other tax liabilities comprise the following:

	June 30, 2010 (unaudited)	December 31, 2009
Mineral extraction tax	**893**	901
Value-added tax	**278**	302
Excise tax	**123**	159
Personal income tax	**22**	19
Property tax	**51**	57
Income tax	**448**	137
Other	**97**	52
Total income and other tax liabilities	**1,912**	1,627

Tax liabilities above include the respective current portion of non-current restructured tax liabilities (see Note 17).

14. Shareholders' Equity

On June 18, 2010, the annual general shareholders' meeting approved dividends on the Company's common shares for 2009 in the amount of RUB 24.4 billion or RUB 2.3 per share, which corresponds to US$ 782 million or US$ 0.07 per share at the CBR official exchange rate at the approval date. US$ 714 million of the above relate to outstanding shares, including tax on dividends on treasury shares.

15. Export Customs Duty

Export customs duty comprises the following:

	Three months ended June 30, 2010 (unaudited)	Three months ended June 30, 2009 (unaudited)	Six months ended June 30, 2010 (unaudited)	Six months ended June 30, 2009 (unaudited)
Oil and gas sales				
Export customs duty	**3,148**	1,669	**6,163**	3,057
Petroleum products and petrochemicals sales				
Export customs duty	**907**	522	**1,876**	976
Total export customs duty	**4,055**	2,191	**8,039**	4,033

16. Income and Other Taxes

Income tax expenses comprise the following:

	Three months ended June 30, 2010 (unaudited)	Three months ended June 30, 2009 (unaudited)	Six months ended June 30, 2010 (unaudited)	Six months ended June 30, 2009 (unaudited)
Current income tax expense	**819**	346	**1,701**	544
Deferred income tax (benefit)/expense	**(56)**	50	**(285)**	(21)
Total income tax expense	**763**	396	**1,416**	523

As of June 30, 2010 the Company analyzed its tax positions for uncertainties affecting recognition and measurement thereof. Following the analysis, the Company believes that it is more likely than not that the majority of all deductible tax positions stated in the income tax return would be sustained upon the examination by the tax authorities. This is supported by the results of the examinations of the income tax returns which have been conducted to date.

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

	Three months ended June 30, 2010 (unaudited)	Three months ended June 30, 2009 (unaudited)	Six months ended June 30, 2010 (unaudited)	Six months ended June 30, 2009 (unaudited)
Mineral extraction tax	**2,192**	1,508	**4,320**	2,494
Excise tax	**283**	233	**534**	417
Property tax	**74**	59	**140**	107
Other	**137**	132	**274**	261
Total taxes other than income tax	**2,686**	1,932	**5,268**	3,279

17. Other Non-Current Liabilities

Other non-current liabilities comprise the following:

	June 30, 2010 (unaudited)	December 31, 2009
Restructured tax liabilities	**1,123**	1,312
Long-term lease obligations	**106**	112
Deferred income	**35**	53
Liabilities to municipalities under amicable agreements	**61**	77
Liabilities for rights to use trademarks "Sochi 2014"	**45**	52
Other	**–**	8
Total other non-current liabilities	**1,370**	1,614

Under the tax restructuring plan, the restructured tax liabilities shall be repaid quarterly within five years starting from March 2008. The Company's payments excluding interest amounted to RUB 3,223 million and RUB 2,683 million (US$ 106.5 million and US$ 82.8 million at the CBR official exchange rate as of the payment dates) for the six months ended June 30, 2010 and 2009, respectively.

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

18. Related Party Transactions

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

Total amounts of transactions and balances with companies controlled by the Russian Government for each of the reporting periods ending June 30, as well as related party balances as of June 30, 2010 and December 31, 2009 are provided in the tables below:

	Six months ended June 30, 2010 (unaudited)	Six months ended June 30, 2009 (unaudited)
Revenues and Income		
Oil and gas sales	**125**	69
Petroleum products and petrochemicals sales	**180**	122
Support services and other revenues	**25**	55
Interest income	**88**	14
	418	260
Costs and expenses		
Production and operating expenses	**58**	146
Pipeline tariffs and transportation costs	**1,953**	1,339
Other expenses	**57**	27
Interest expense	**6**	99
Banking fees	**5**	6
	2,079	1,617

18. Related Party Transactions (continued)

	Six months ended June 30, 2010 (unaudited)	Six months ended June 30, 2009 (unaudited)
Other operations		
Sale of short-term and long-term investments	**–**	505
Purchase of short-term and long-term investments	**–**	31
Proceeds from short-term and long-term debt	**3**	1
Repayment of short-term and long-term debt	**624**	2,996
Deposits placed	**1,417**	993
Deposits paid	**805**	95

	June 30, 2010 (unaudited)	December 31, 2009
Assets		
Cash and cash equivalents	**1,144**	755
Accounts receivable	**41**	40
Prepayments and other current assets	**244**	395
Short-term and long-term investments	**2,166**	2,309
	3,595	3,499
Liabilities		
Accounts payable	**34**	56
Short-term and long-term debt (including interest)	**774**	1,417
	808	1,473

Total amounts of transactions with related parties (except for those controlled by the Government of the Russian Federation), which are primarily equity investees and joint ventures, for each of the reporting periods ending June 30, as well as related party balances as of June 30, 2010 and December 31, 2009 are provided in the tables below:

	Six months ended June 30, 2010 (unaudited)	Six months ended June 30, 2009 (unaudited)
Revenues and Income		
Oil and gas sales	**20**	12
Petroleum products and petrochemicals sales	**63**	38
Support services and other revenues	**187**	165
Interest income	**18**	8
Dividends received	**15**	15
	303	238
Costs and expenses		
Production and operating expenses	**170**	104
Purchase of oil and petroleum products	**674**	536
Other expenses	**56**	47
	900	687
Other operations:		
Purchase of short-term and long-term investments	**8**	110
Proceeds from short-term and long-term debt	**8**	61
Repayment of short-term and long-term debt	**3**	4
Borrowings issued	**140**	8
Repayment of borrowings issued	**4**	2

18. Related Party Transactions (continued)

	June 30, 2010 (unaudited)	December 31, 2009
Assets		
Accounts receivable	**382**	225
Prepayments and other current assets	**12**	7
Short-term and long-term investments	**696**	569
	1,090	801
Liabilities		
Accounts payable	**138**	215
Short-term and long-term debt (including interest)	**357**	364
	495	579

19. Commitments and Contingencies

Russian Business Environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. In addition laws and regulations, including interpretations, enforcement and judicial processes, continue to evolve in Russia. Other laws and regulations and certain other restrictions producing a significant effect on the Company's industry, included to the following: rights to use subsurface resources, environmental matters, site restoration, transportation and export, corporate governance, taxation, etc.

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

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

Taxation

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

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

19. Commitments and Contingencies (continued)

Taxation (continued)

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

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

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

During six months ended June 30, 2010, the tax authorities held tax examinations in the Company and its subsidiaries for 2006-2009 fiscal years. The Company does not expect results of the examinations to have a material impact on the Company's consolidated financial position or results of operations. Tax years or periods prior to 2006 are not subject to examination.

As of June 30, 2010, there is a possible risk that RUB 4,895 million (US$ 157 million at the CBR official exchange rate as of June 30, 2010) of VAT receivable (see Note 5) will not be recovered.

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

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.

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 leaks that pollute land, air pollution and placement of oil waste. The Company considers fines paid and other environmental liabilities as immaterial, given the scale of its operations.

19. Commitments and Contingencies (continued)

Environmental Matters

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.

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

Social and Sponsorship Expenses

The Company is required to maintain certain social infrastructure assets (not owned by the Company and not recorded in the consolidated financial statements) for use by its employees, as well as to incur other social and sponsorship costs. Partly in exchange the Company receives regional tax incentives enabling it to further develop its business.

The Company incurred US$ 67 million and US$ 64 million in social and sponsorship expenses for the first six months of 2010 and 2009, respectively. These expenses are presented within other expenses in the consolidated statements of income and comprehensive income.

Pension Plans

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

The Company also maintains a defined contribution corporate pension plan to finance non-state pensions of its employees. Under this plan, for the first six months of 2010 and 2009, the Company made contributions amounting to US$ 45 million and US$ 50 million, respectively.

Guarantees and Indemnity

As of June 30, 2010, the Company has provided guarantees for certain debt agreements primarily of its subsidiaries. In accordance with the debt agreements, the Company is obliged to perform on the guarantee and to pay the bank all amounts of outstanding guaranteed liabilities, including interest.

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

19. Commitments and Contingencies (continued)

Guarantees and Indemnity (continued)

In January 2007, RN-Yuganskneftegaz LLC signed a guarantee agreement in respect of all the obligations of RN-Energo LLC, the Company's wholly owned subsidiary, under the contract for electricity supply with OJSC Tyumenskaya Energosbytovaya Companiya for the period through December 31, 2010, in the amount of RUB 1.5 billion (US$ 48 million at the CBR official exchange rate as of June 30, 2010). In the first quarter of 2010, this guarantee agreement was extended to December 31, 2013.

In November 2009, Rosneft signed a guarantee agreement in respect of all the obligations of RN-Tuapse Refinery LLC, the Rosneft's wholly owned subsidiary, under the contract for delivery of power generating units with Siemens Industrial Turbomachinery AB for the period through September 30, 2012, in the amount of 960 million Swedish krona (US$ 123 million at the CBR based cross-rate as of June 30, 2010). In November 2009, Rosneft entered into a loan agreement with a western bank to finance the above delivery contract.

Litigations, Claims and Assessments

In 2006, Yukos Capital S.a.r.l., a former subsidiary of Yukos Oil Company, initiated arbitral proceedings against the Company and OJSC Samaraneftegas, the Company's subsidiary, in various courts alleging default under six ruble-denominated loans. The International Commercial Arbitration Court (the "ICAC") at the Russian Federation Chamber of Commerce and Industry issued four arbitration awards in favor of Yukos Capital S.a.r.l. in the amount of RUB 12.9 billion (US$ 414 million at the CBR official exchange rate as of June 30, 2010). Arbitration panel formed pursuant to the International Chamber of Commerce ("ICC") rules issued an award against OJSC Samaraneftegas in the amount of RUB 3.6 billion (US$ 115 million at the CBR official exchange rate as of June 30, 2010).

In 2007, the Company successfully challenged the ICAC awards and the ICAC awards were set aside by the Russian courts, including the Supreme Arbitration Court of the Russian Federation. Yukos Capital S.a.r.l., nevertheless, sought to enforce the ICAC awards in the Netherlands. The district court in Amsterdam refused to enforce the ICAC awards on the ground that they were properly set aside by a competent court. Yukos Capital S.a.r.l. appealed and on April 28, 2009 the Amsterdam Court of Appeals reversed the district court judgment and allowed Yukos Capital S.a.r.l. to enforce the ICAC awards in the Netherlands. The Company petitioned the decision of the Amsterdam Court of Appeals to the Supreme Court of the Netherlands requesting to annul the decision.

In 2007, lawsuits with Russian arbitration courts in Moscow and Samara were filed to nullify the loan agreements with Yukos Capital S.a.r.l. Court hearings have been suspended.

In 2009 and early 2010, Yukos Capital S.a.r.l. filed additional lawsuits as follows: (1) in the U.S. District Court for the Southern District of New York, seeking to enforce the ICAC awards and the Amsterdam Court of Appeals judgment in the United States of America; (2) in the High Court of Justice in London, seeking enforcement of the ICAC awards in England and Wales, as well as interest on those awards; (3) in the High Court of Justice in Dublin, seeking enforcement of the ICAC awards in Ireland, as well as interest on those awards; and (4) in the Royal Court of the Island of Jersey, seeking enforcement of the ICAC awards in Jersey, as well as interest on those awards. The proceedings in England, Ireland, and Jersey were all commenced with applications for orders freezing certain of Rosneft's assets which were granted on an ex parte basis. The New York court allowed prejudgment attachment if Rosneft had assets in New York, but nothing was in fact attached.

19. Commitments and Contingencies (continued)

Litigations, Claims and Assessments (continued)

On April 6, 2010, a consent judgment was entered in the English court pursuant to which: (1) Rosneft agreed to provide mutually agreed security for the English and Netherlands proceedings; (2) all freezing, attachment, and execution orders were discharged in England, Ireland, Jersey, the Netherlands, and New York; (3) the lawsuits in New York, Ireland, and Jersey were dismissed; (4) Yukos Capital S.a.r.l. committed not to commence any new litigation concerning the ICAC awards; and (5) Yukos Capital S.a.r.l. committed to drop its efforts to execute on the Amsterdam Court of Appeals judgment.

On June 25, 2010, the Supreme Court of the Netherlands declared inadmissible the Company’s appeal on the decision of the Amsterdam Court of Appeals enforcing the ICAC awards in the Netherlands. It is anticipated that Yukos Capital S.a.r.l. will seek payment under the mutually agreed security noted above in the near future.

Rosneft intends to defend its position vigorously in the remaining proceedings in England.

The Company continues to reflect the liability under these loan agreements in its consolidated financial statements (see Note 12) and believes that payments in excess of the recorded amounts are possible but cannot be reasonably estimated.

The Company and its subsidiary participate in arbitral proceedings against OJSC Sakhaneftegaz and OJSC Lenaneftegaz for the recovery of certain loans and guarantees of indemnity in the amount of RUB 1,286 million (US$ 41 million at the CBR official exchange rate as of June 30, 2010). The respective accounts receivable in the amount of US$ 22 million (net of allowance in the amount of US$ 19 million) are recorded as long-term receivables in the consolidated balance sheet (see Note 10).

The Company was a plaintiff in arbitral proceedings against OJSC National Bank TRUST (further "TRUST") for the repayment under a deposit agreement. In December 2009, parties concluded an amicable agreement according to which TRUST agreed to repay further to previously repaid amounts, an additional amount of RUB 946 million (US$ 31 million at the CBR official exchange rate as of December 31, 2010) by April 1, 2010. In April 2010, TRUST fully repaid its debt.

During 2008 and 2009, the Federal Antimonopoly Service ("FAS Russia") and its regional bodies claimed that Rosneft and certain companies of the Group violated certain antimonopoly regulations in relation to petroleum products trading. The total amount of administrative penalties assessed as of the financial statements issue date is RUB 7,543 million (US$ 242 million at the CBR official exchange rate as of June 30, 2010). The Company is appealing all claims in relevant arbitration courts. To the extent probable, the estimated contingent liability is accrued in these interim condensed consolidated financial statements.

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

19. Commitments and Contingencies (continued)

Licence Agreements

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

Oil Supplies

In January 2005, the Company entered into a long-term contract for the term from February 2005 through December 2010 with China National United Oil Corporation for the sale of crude oil via rail to China in the total amount of 48.4 million tons. The contract is based on usual commercial terms with an agreed formula linked to market prices.

In February 2009, Rosneft entered into a long-term contract for the term from January 2011 through December 2030 with China National Petroleum Corporation for the sale of crude oil via pipeline to China in the total amount of 180 million tons. The contract is based on usual commercial terms with an agreed formula linked to market prices.

In April 2009, Rosneft entered into a long-term contract for the term from January 2011 through December 2030 with OJSC AK Transneft for the sale of crude oil via pipeline to China in the total amount of 120 million tons. The contract is based on usual commercial terms with an agreed formula linked to market prices.

20. Segment Information

Presented below is information about the Company's operating segments in accordance with FASB ASC 280, *Segment Reporting.* The Company determines its operating segments based on the nature of their operations. The performance of these operating segments is assessed by management on a regular basis. The exploration and production segment is engaged in field exploration and development and production of crude oil and natural gas. The refining, marketing and distribution segment is engaged in processing crude oil and other hydrocarbons into petroleum products, as well as the purchase, sale and transportation of crude oil and petroleum products. Corporate assets are allocated between exploration and production and refining, marketing and distribution in proportion to sales of these segments. Drilling services, construction services, banking and finance services, and other activities are combined in the "All other" category. Substantially all of the Company's operations are conducted in the Russian Federation. Further, the geographical regions within the Russian Federation have substantially similar economic and regulatory conditions. Therefore, the Company has not presented any separate geographical disclosure.

The significant accounting policies applied to each operating segment are consistent with those applied to the consolidated financial statements. Sales transactions for goods and services between the operating segments are carried out using prices agreed upon between Rosneft and its subsidiaries.

20. Segment Information (continued)

Operating segments for three months ended June 30, 2010:

	Exploration and production (unaudited)	Refining, marketing and distribution (unaudited)	All other (unaudited)	Total elimination (unaudited)	Consolidated (unaudited)
Revenues from external customers	**291**	**14,656**	**484**	–	**15,431**
Intersegmental revenues	**4,464**	**1,040**	**1,975**	**(7,479)**	–
Total revenues	**4,755**	**15,696**	**2,459**	**(7,479)**	**15,431**
Production and operating expenses and cost of purchased oil, gas and petroleum products	**563**	**925**	**265**	–	**1,753**
Depreciation, depletion and amortization	**1,084**	**209**	**55**	–	**1,348**
Operating income	**3,247**	**6,762**	**838**	**(7,479)**	**3,368**
Total other expense, net					**(49)**
Income before tax					**3,319**

Operating segments for three months ended June 30, 2009:

	Exploration and production (unaudited)	Refining, marketing and distribution (unaudited)	All other (unaudited)	Total elimination (unaudited)	Consolidated (unaudited)
Revenues from external customers	255	10,216	476	–	10,947
Intersegmental revenues	2,163	853	1,276	(4,292)	–
Total revenues	2,418	11,069	1,752	(4,292)	10,947
Production and operating expenses and cost of purchased oil, gas and petroleum products	492	849	175	–	1,516
Depreciation, depletion and amortization	796	174	42	–	1,012
Operating income	1,081	4,702	1,049	(4,292)	2,540
Total other expense, net					(551)
Income before tax					1,989

Operating segments for six months ended June 30, 2010:

	Exploration and production (unaudited)	Refining, marketing and distribution (unaudited)	All other (unaudited)	Total elimination (unaudited)	Consolidated (unaudited)
Revenues from external customers	**597**	**28,661**	**934**	–	**30,192**
Intersegmental revenues	**8,270**	**2,053**	**3,713**	**(14,036)**	–
Total revenues	**8,867**	**30,714**	**4,647**	**(14,036)**	**30,192**
Production and operating expenses and cost of purchased oil, gas and petroleum products	**1,083**	**1,727**	**503**	–	**3,313**
Depreciation, depletion and amortization	**2,106**	**403**	**111**	–	**2,620**
Operating income	**5,823**	**13,228**	**1,499**	**(14,036)**	**6,514**
Total other expense, net					**(50)**
Income before tax					**6,464**

20. Segment Information (continued)

Operating segments for six months ended June 30, 2009:

	Exploration and production (unaudited)	Refining, marketing and distribution (unaudited)	All other (unaudited)	Total elimination (unaudited)	Consolidated (unaudited)
Revenues from external customers	454	17,926	831	–	19,211
Intersegmental revenues	3,785	1,605	2,424	(7,814)	–
Total revenues	4,239	19,531	3,255	(7,814)	19,211
Production and operating expenses and cost of purchased oil, gas and petroleum products	906	1,405	320	–	2,631
Depreciation, depletion and amortization	1,568	345	79	–	1,992
Operating income	1,732	8,007	1,934	(7,814)	3,859
Total other income, net					342
Income before tax					4,201

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

	Three months ended June 30, 2010 (unaudited)	Three months ended June 30, 2009 (unaudited)	Six months ended June 30, 2010 (unaudited)	Six months ended June 30, 2009 (unaudited)
Oil and gas sales				
Export sales of crude oil – Europe and other directions	**5,351**	4,164	**10,729**	7,153
Export sales of crude oil – Asia	**2,517**	1,111	**4,820**	1,957
Export sales of crude oil – CIS	**545**	318	**755**	577
Domestic sales of crude oil	**93**	20	**136**	34
Domestic sales of gas	**98**	83	**211**	163
Total oil and gas sales	**8,604**	5,696	**16,651**	9,884
Petroleum products and petrochemicals sales				
Export sales of petroleum products – Europe	**1,986**	1,653	**4,174**	2,914
Export sales of petroleum products – Asia	**1,465**	1,183	**2,967**	2,045
Export sales of petroleum products – CIS	**26**	20	**74**	70
Domestic sales of petroleum products	**2,861**	2,021	**5,331**	3,640
Sales of petrochemicals	**116**	56	**218**	84
Total petroleum products and petrochemicals sales	**6,454**	**4,933**	**12,764**	**8,753**

21. Fair Value of Financial Instruments and Risk Management

Effective January 1, 2008, the Company adopted FASB ASC 820, which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs when measuring fair value.

FASB ASC 820 defines three levels of inputs that may be used to measure fair value:

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

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

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

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

	Fair value measurement as of June 30, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Current assets				
Trading securities	117	19	–	136
Available-for-sale securities	371	137	–	508
Derivatives	–	5	–	5
Non-current assets				
Available-for-sale securities	20	20	–	40
Total assets measured at fair value	**508**	**181**	**–**	**689**
Current liabilities:				
Derivatives	–	(206)	–	(206)
Total liabilities measured at fair value	**–**	**(206)**	**–**	**(206)**

The market for a number of financial assets is not active. In accordance with requirements of FASB ASC 820-10-35-15A, *Financial Assets in a Market That Is Not Active***,** observable inputs of Level 2 were used to determine fair value of such financial assets.

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

The fair value of cash and cash equivalents, held-to-maturity securities, accounts receivable, accounts payable, and other current assets approximates their carrying value recognized in these financial statements. The fair value of long-term debt differs from the amounts recognized in the consolidated financial statements. The estimated fair value of long-term debt discounted using the estimated market interest rate for similar financial liabilities amounted to US$ 16,642 million and US$ 17,916 million as of June 30, 2010 and December 31, 2009, respectively. These amounts include all future cash outflows related to the repayment of long-term loans, including their current portion and interest expenses.

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

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

The Company enters into contracts to economically hedge certain of its risks associated with ruble appreciation and increased interest expense accrued on loans received by the Company. Hedge accounting pursuant to FASB ASC 815 is not applied to these instruments.

In December 2007, the Company entered into a 5-year interest rate swap contract with a notional amount of US$ 3 billion. Under the terms of the contract, a floating LIBOR rate may be converted into a certain fixed rate. The other party has a call option to terminate the deal. The fair value of the interest swap contract was recorded in the consolidated balance sheets as of June 30, 2010 and December 31, 2009 as other current liabilities in the amount of US$ 171.3 million and US$ 151.5 million, respectively. The change in fair value was recorded in the consolidated statement of income and comprehensive income for the six months ended June 30, 2010 as a component of interest expense in the amount of US$ 19.8 million.

In December 2008, the Company entered into a 5-year interest rate swap contract with a notional amount of US$ 500 million. Under the terms of the contract, a floating LIBOR rate may be converted into a certain fixed rate. The other party will have a call option to terminate the deal commencing two years after the contract date. The fair value of the interest swap contract was recorded in the consolidated balance sheets as of June 30, 2010 as other current liabilities in the amount of US$ 30.6 million, and as of December 31, 2009 as other current asset in the amount of US$ 2.7 million (see Note 7). The change in fair value was recorded in the consolidated statement of income and comprehensive income for the six months ended June 30, 2010 as a component of interest expense in the amount of US$ 33.3 million.

In October 2009, the Company entered into a fixed interest rate structured deposit agreement with a nominal amount of US$ 500 million (see Note 4) which expires in October 2010. If on the deposit repayment date the spot RUB/US$ exchange rate is higher than agreed conversion rate, the other party has a call option to repay amount in RUB which shall be equal to the nominal deposit amount multiplied by the respective conversion rate. Embedded call option was bifurcated from the host contract and recorded at fair value in the consolidated balance sheets as of June 30, 2010 and December 31, 2009 as other current liability in the amount of US$ 1.8 million and US$ 0 million (see Note 7), respectively. The change in fair value was recorded in the consolidated statement of income and comprehensive income for the six months ended June 30, 2010 as a component of foreign exchange loss in the amount of US$ 1.8 million.

In May 2010, the Company entered into fixed interest rate structured deposit agreements with two banks for nominal amounts of US$ 500 million and US$ 495 million (see Note 4) which similarly expire in May 2011. If on the deposit repayment date the spot RUB/US$ exchange rate is higher than agreed conversion rate, the other party has a call option to repay amount in RUB which shall be equal to the nominal deposit amount multiplied by the respective conversion rate. Embedded call options were bifurcated from the host contracts and as of June 30, 2010 as other current asset and other current liability in the amount of US$ 0.1 million (see Note 7) and US$ 0.4 million, respectively. The resulting change in fair values was recorded in the consolidated statement of income and comprehensive income for the six months ended June 30, 2010 as a component of foreign exchange loss in the amount of US$ 0.3 million.

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

In June 2010, the Company entered into a fixed interest rate structured deposit agreement with a nominal amount of US$ 200 million (see Note 4) which expires in June 2011. If on the deposit repayment date the spot RUB/US$ exchange rate is higher than agreed conversion rate, the other party has a call option to repay amount in RUB which shall be equal to the nominal deposit amount multiplied by the respective conversion rate. Embedded call option was bifurcated from the host contract and recorded at fair value in the consolidated balance sheet as of June 30, 2010 as other current asset in the amount of US$ 4.2 million (see Note 7). The change in fair value was recorded in the consolidated statement of income and comprehensive income for the six months ended June 30, 2010 as a component of foreign exchange gain in the amount of US$ 4.2 million.

In February and May 2010, the Company entered into forward foreign currency contracts to economically hedge its 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. As of June 30, 2010, the maximum term over which the Company has economically hedged exposures to the variability of the currency exchange rates under its derivative instruments is 6 months. The fair values of forward contracts were recorded in the consolidated balance sheet as of June 30, 2010 as other current asset and other current liability in the amount of US$ 1.1 million (see Note 7) and US$ 1.6 million, respectively, and the resulting change in fair value was recorded in the consolidated statement of income and comprehensive income for the six months ended June 30, 2010 as a component of foreign exchange loss in the amount of US$ 0.5 million.

Fair values of foreign currency forward contracts, the interest rate swap contracts and embedded call options are based on estimated amounts that the Company would pay or receive upon termination of the contracts as of June 30, 2010.

22. Subsequent Events

Effective July 1, 2010, export customs duty rate was raised from 0 to US$69.9 (per ton) for crude oil exported from the Company's fields in Eastern Siberia. This change does not affect the Company's proved reserves disclosed in the Supplementary Oil and Gas Disclosure (unaudited) in the Company's consolidated financial statements as of and for the year ended December 31, 2009.