ROSNEFT

OIL COMPANY

OPEN JOINT STOCK COMPANY

Rosneft Oil Company

Interim Condensed Consolidated Financial Statements (Unaudited)

Three and six months ended June 30, 2009 and 2008

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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, 2009, and the related consolidated statements of income and comprehensive income and cash flows for the three and six months ended June 30, 2009 and 2008. 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, 2008, 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 March 2, 2009, 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, 2008, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Ernst & Young LLC

September 1, 2009

Rosneft Oil Company

Consolidated Balance Sheets

(in millions of US dollars, except share amounts)

	Notes	June 30, 2009 (unaudited)	December 31, 2008
ASSETS			
Current assets:			
Cash and cash equivalents	3	**998**	1,369
Restricted cash		**8**	4
Short-term investments	4	**1,124**	1,710
Accounts receivable, net of allowance	5	**6,665**	6,299
Inventories	6	**1,525**	1,427
Deferred tax assets		**184**	152
Prepayments and other current assets	7	**1,225**	1,846
Total current assets		**11,729**	12,807
Non-current assets:			
Long-term investments	8	**3,550**	2,695
Long-term bank loans granted, net of allowance of US$ 20 and US$ 15, respectively		**317**	326
Property, plant and equipment, net	9	**56,026**	55,204
Goodwill	10	**4,507**	4,507
Intangible assets, net	10	**661**	679
Deferred tax assets		**101**	118
Other non-current assets	11	**1,349**	1,177
Total non-current assets		**66,511**	64,706
Total assets		**78,240**	77,513
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	12	**3,767**	3,096
Short-term loans and current portion of long-term debt	13	**9,033**	14,084
Income and other tax liabilities	14	**1,286**	1,094
Deferred tax liabilities		**68**	115
Other current liabilities		**208**	308
Total current liabilities		**14,362**	18,697
Asset retirement obligations		**1,754**	1,896
Long-term debt	13	**12,774**	10,081
Deferred tax liabilities		**5,116**	5,371
Other non-current liabilities	18	**1,555**	1,870
Total non-current liabilities		**21,199**	19,218
Equity:			
Common stock par value 0.01 RUB (shares outstanding: 9,598 million as of June 30, 2009 and December 31, 2008)	15	**20**	20
Treasury shares:			
- unpledged (at acquisition cost: 1,000 million and 505.07 million shares as of June 30, 2009 and December 31, 2008, respectively)	13	**(7,521)**	(3,799)
- pledged (at acquisition cost: 0 and 494.93 million shares as of June 30, 2009 and December 31, 2008, respectively)		**–**	(3,722)
Additional paid-in capital		**13,108**	13,108
Other comprehensive loss	2	**(34)**	(40)
Retained earnings		**36,408**	33,336
Total shareholders' equity		**41,981**	38,903
Noncontrolling interests		**698**	695
Total equity		**42,679**	39,598
Total liabilities and equity		**78,240**	77,513

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, 2009 (unaudited)	Three months ended June 30, 2008 (unaudited)	Six months ended June 30, 2009 (unaudited)	Six months ended June 30, 2008 (unaudited)
Revenues					
Oil and gas sales	21	**5,696**	11,767	**9,884**	20,458
Petroleum products sales and processing fees	21	**4,933**	8,994	**8,753**	16,359
Support services and other revenues		**318**	373	**574**	685
Total		**10,947**	21,134	**19,211**	37,502
Costs and expenses					
Production and operating expenses		**1,027**	1,086	**1,847**	2,106
Cost of purchased oil, gas and petroleum products		**489**	772	**784**	1,541
General and administrative expenses		**366**	431	**676**	789
Pipeline tariffs and transportation costs		**1,251**	1,402	**2,503**	2,783
Exploration expense		**117**	49	**197**	123
Depreciation, depletion and amortization		**1,012**	1,076	**1,992**	2,030
Accretion expense		**22**	31	**41**	71
Taxes other than income tax	17	**1,932**	4,535	**3,279**	8,125
Export customs duty	16	**2,191**	5,807	**4,033**	10,285
Total		**8,407**	15,189	**15,352**	27,853
Operating income		**2,540**	5,945	**3,859**	9,649
Other income/(expenses)					
Interest income		**81**	95	**188**	169
Interest expense		**(74)**	(163)	**(239)**	(502)
Loss on disposal of property, plant and equipment		**(35)**	(30)	**(50)**	(26)
Gain/(loss) on disposal of investments		**13**	(3)	**18**	(4)
Equity share in affiliates' (losses)/profits	8	**(26)**	14	**16**	126
Dividends and (loss)/income from joint ventures		**(6)**	(4)	**(6)**	2
Other (expenses)/income, net		**(113)**	(26)	**8**	(28)
Foreign exchange (loss)/gain		**(391)**	(14)	**407**	(166)
Total other income/(expenses)		**(551)**	(131)	**342**	(429)
Income before income tax		**1,989**	5,814	**4,201**	9,220
Income tax	17	**(396)**	(1,470)	**(523)**	(2,306)
Net income		**1,593**	4,344	**3,678**	6,914
Less: net loss/(income) attributable to noncontrolling interests		**19**	(32)	**(6)**	(38)
Net income attributable to Rosneft		**1,612**	4,312	**3,672**	6,876
Other comprehensive income/(loss)	2	**7**	(7)	**6**	(16)
Comprehensive income		**1,619**	4,305	**3,678**	6,860
Net income attributable to Rosneft per share (in US$) – basic and diluted		**0.17**	0.45	**0.38**	0.72
Weighted average number of shares outstanding (millions)		**9,598**	9,598	**9,598**	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, 2009 (unaudited)	Six months ended June 30, 2008 (unaudited)
Operating activities			
Net income		**3,678**	6,914
Adjustments to reconcile net income to net cash provided by operating activities:			
Effect of foreign exchange		**(698)**	211
Depreciation, depletion and amortization		**1,992**	2,030
Dry hole costs		**78**	91
Loss on disposal of property, plant and equipment		**50**	26
Deferred income tax benefit		**(21)**	(502)
Accretion expense		**41**	71
Equity share in affiliates' profits		**(16)**	(126)
(Gain)/loss on disposal of investments		**(18)**	4
Acquisition of trading securities		**(314)**	(80)
Proceeds from sale of trading securities		**11**	43
Increase in allowance for doubtful accounts and bank loans granted		**12**	10
Gain on extinguishment of promissory notes	13	**(149)**	–
Changes in operating assets and liabilities net of acquisitions:			
(Increase)/decrease in accounts receivable		**(672)**	878
Increase in inventories		**(98)**	(428)
Increase in restricted cash		**(4)**	(10)
Decrease in prepayments and other current assets		**621**	77
Increase in other non-current assets		**(19)**	(331)
Decrease/(increase) in long-term bank loans granted		**4**	(131)
(Decrease)/increase in interest payable		**(21)**	58
Increase in accounts payable and accrued liabilities		**158**	180
Increase in income and other tax liabilities		**479**	453
Decrease in other current and non-current liabilities		**(352)**	(60)
Net cash provided by operating activities		**4,742**	9,378
Investing activities			
Capital expenditures		**(3,387)**	(4,247)
Acquisition of licences		**–**	(47)
Proceeds from disposal of property, plant and equipment		**14**	17
Acquisition of short-term investments, including			
Held-to-maturity securities		**(1,934)**	(1,300)
Available-for-sale securities		**(31)**	(2)
Proceeds from sale of short-term investments, including			
Held-to-maturity securities		**1,976**	21
Available-for-sale securities		**1**	1
Acquisition of long-term investments, including			
Held-to-maturity securities		**(41)**	(159)
Available-for-sale securities		**(808)**	(13)
Proceeds from sale of long-term investments, including			
Held-to-maturity securities		**1**	5
Available-for-sale securities		**–**	8
Acquisition of entities and additional shares in subsidiaries, net of cash acquired		**–**	(12)
Margin call deposit placed	13	**(315)**	–
Margin call deposit returned	13	**1,208**	–
Net cash used in investing activities		**(3,316)**	(5,728)

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, 2009 (unaudited)	Six months ended June 30, 2008 (unaudited)
Financing activities			
Proceeds from short-term debt		**155**	2,889
Repayment of short-term debt		**(6,395)**	(5,891)
Proceeds from long-term debt		**6,571**	3,625
Repayment of long-term debt		**(2,098)**	(1,366)
Dividends paid to minority shareholders in subsidiaries		**(1)**	–
Net cash used in financing activities		**(1,768)**	(743)
(Decrease)/increase in cash and cash equivalents		**(342)**	2,907
Cash and cash equivalents at beginning of period		**1,369**	998
Effect of foreign exchange on cash and cash equivalents		**(29)**	44
Cash and cash equivalents at end of period		**998**	3,949
Supplementary disclosures of cash flow information			
Cash paid for interest		**482**	502
Cash paid for interest (net of amount capitalized)		**222**	367
Cash paid for income taxes		**545**	1,960
Supplementary disclosures of non-cash activities			
Income tax offsets	5	**288**	1,046

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

1. Nature of Operations

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

2. Significant Accounting Policies

Form and Content of the Interim Condensed Consolidated Financial Statements

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

The interim condensed consolidated financial statements included herein are unaudited and have been prepared in accordance with US GAAP for interim financial reporting of public companies (primarily Accounting Principle Board Opinion ("APB") 28, *Interim Financial Reporting*) and do not include all disclosures required by US GAAP. The Company omitted disclosures which would substantially duplicate the information contained in its 2008 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 2008 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 2008 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, 2009 may not be indicative of the results of operations for the full year ended December 31, 2009. These interim condensed consolidated financial statements contain information updated through September 1, 2009.

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

2. Significant Accounting Policies (continued)

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

Certain items in the consolidated balance sheet as of December 31, 2008, consolidated statement of income and comprehensive income, and the consolidated statement of cash flows for the six months ended June 30, 2008 were reclassified to conform to the current year presentation according to the provisions of Statement of Financial Accounting Standard ("SFAS") 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51,* which the Company adopted from January 1, 2009 prospectively, with the exception of presentation and disclosure requirements (see below "Changes in Accounting Policies").

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

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

As of June 30, 2009 and December 31, 2008, the Central Bank of the Russian Federation ("CBR") official rates of exchange were 31.29 rubles and 29.38 rubles per US dollar, respectively. Average rates of exchange in the first six months of 2009 and 2008 were 33.07 rubles and 23.94 rubles per US dollar, respectively. As of September 1, 2009, the official rate of exchange was 31.84 rubles ("RUB") per US dollar.

The translation of local currency denominated assets and liabilities into US dollars for the purposes of these financial statements does not indicate that the Company could realize or settle, in US dollars, the reported values of these assets and liabilities. Likewise, it does not indicate that the Company could return or distribute the reported US dollar ("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 influence, are also accounted for using the equity method. The Company's share in net profit or loss of equity investees also includes any other-than-temporary declines in fair value recognized during the period. Investments in other companies are accounted for at cost and adjusted for impairment, if any.

Business Combinations

From January 1, 2009, the Company accounts for its business combinations according to SFAS 141 (Revised), *Business Combinations,* and SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51,* (see below "Changes in Accounting Policies") under 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, license 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 Statement SFAS 142, *Goodwill and Other Intangible Assets*, goodwill and intangible assets with indefinite useful lives are not amortized. Instead, they are tested at least annually for impairment. 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

SFAS 107, *Disclosures about Fair Value of 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 Taxes

The Company follows the provisions of APB 28, *Interim Financial Reporting*, to arrive at the effective tax rate. The effective tax rate is the best estimate of the expected annual tax rate to be applied to the taxable income for the current reporting period. The rate is based on the currently enacted tax rate (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 in the consolidated balance sheets at fair value in either other current assets, other non-current assets, other current liabilities or other non-current liabilities. Recognition and classification of a gain or loss that results from recognition of a derivative instrument at fair value depends on the purpose of issuing or holding the derivative instrument. Gains and losses from derivatives that are not accounted for as hedges under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133"), are recognized immediately in the consolidated statement of income and comprehensive income.

Comprehensive Income

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

As of June 30, 2009 and December 31, 2008, the Company recorded other accumulated comprehensive loss (net of tax) in the amount of US$ 34 million and US$ 40 million, respectively, which represent an unrealized loss resulting from the revaluation of available-for-sale investments.

Accounting for Buy/Sell Contracts

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

2. Significant Accounting Policies (continued)

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.

Changes in Accounting Policies

In December 2007, the FASB issued SFAS 141 (Revised), *Business Combinations* ("SFAS 141(R)"), which was subsequently amended by FASB Staff Position (FSP) FAS 141(R)-1 in April 2009. This Statement retains the fundamental requirements in SFAS 141 that acquisition method of accounting be used for all business combinations and for an acquirer to be identified for each business combination, but expands the scope of acquisition accounting to all transactions and circumstances under which control of business is obtained. SFAS 141(R) requires an acquirer to recognize 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. That replaces SFAS 141's cost-allocation process, which required the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. SFAS 141(R) shall be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company adopted SFAS 141(R) from January 1, 2009. Adoption of SFAS 141 (R) did not have a material impact on the Company's financial position and results of operations.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51* ("SFAS 160"). This Statement amends Accounting Research Bulletin ("ARB") 51, *Consolidated Financial Statements*, to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 requires noncontrolling interest, previously called minority interest, to be presented as a separate item in the equity section of the consolidated balance sheet. It also requires the amount of consolidated net income attributable to noncontrolling interest to be clearly presented on the face of the consolidated statements of income and comprehensive income. SFAS 160 shall be effective for fiscal periods beginning on or after December 15, 2008. The Company adopted the provisions of SFAS 160 from January 1, 2009 prospectively with the exception of presentation and disclosure requirements, which were applied retrospectively for all periods presented, and did not significantly change the presentation of the Company's interim condensed consolidated financial statements. Equity attributable to noncontrolling interest did not change materially from December 31, 2008 to June 30, 2009.

2. Significant Accounting Policies (continued)

Changes in Accounting Policies (continued)

In March 2008, the FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161"). This Statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 shall be effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company adopted SFAS 161 effective January 1, 2009. Adoption of SFAS 161 did not have a material impact on the Company's financial position and results of operations.

Effective January 1, 2008, the Company adopted SFAS 157, *Fair Value Measurements* ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The Company elected one-year deferral of the effective date of SFAS 157 permitted by FSP FAS 157-2 for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value on a recurring basis (at least annually). Following the one-year deferral permitted FSP FAS 157-2, effective January 1, 2009, the Company adopted SFAS 157 for nonfinancial assets and nonfinancial liabilities measured at fair value on a nonrecurring basis, such as assets and liabilities measured at fair value in a business combination; impaired properties, plants and equipment; intangible assets and goodwill; initial recognition of asset retirement obligations. In the six months ended June 30, 2009, the Company did not have a business combination, impairment of goodwill or intangible assets. Adoption of SFAS 157 for nonfinancial assets and liabilities did not have a material impact on the Company's financial position and results of operations.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* ("FSP FAS 107-1 and APB 28-1"). FSP FAS 107-1 and APB 28-1 applies to all financial instruments within the scope of FAS 107, *Disclosures about Fair Value of Financial Instruments*, held by publicly traded companies. FSP FAS 107-1 and APB 28-1 requires companies to include disclosures about the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. This FSP shall be effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company adopted FSP FAS 107-1 and APB 28-1 starting from interim condensed consolidated financial statements for the six months ended June 30, 2009. Adoption of FSP FAS 107-1 and APB 28-1 did not have a material impact on the Company's financial position and results of operations.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* ("FSP FAS 115-2 and FAS 124-2"). FSP FAS 115-2 and FAS 124-2 amends the other-than-temporary impairment guidance for debt securities and presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. Among other things FSP FAS 115-2 and FAS 124-2 replaced the current requirement that a holder have the positive intent and ability to hold an impaired security to recovery in order to conclude an impairment was temporary with a requirement that an entity conclude it does not intend to sell an impaired security and it is not more likely than not it will be required to sell the security before the recovery of its amortized cost basis. FSP FAS 115-2 and FAS 124-2 shall be effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company adopted FSP FAS 115-2 and FAS 124-2 starting from interim condensed consolidated financial statements for the six months ended June 30, 2009. Adoption of FSP FAS 115-2 and FAS 124-2 did not have a material impact on the Company's financial position and results of operations.

2. Significant Accounting Policies (continued)

Changes in Accounting Policies (continued)

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* ("FSP FAS 157-4"). FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS 157, when the volume and level of activity for the asset or liability have significantly decreased. FSP FAS 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS 157-4 reaffirms what SFAS 157 states is the objective of fair value measurement—to reflect how much an asset would be sold for in an orderly transaction (as opposed to a distressed or forced transaction) at the date of the financial statements under current market conditions. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. FSP FAS 157-4 shall be effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company adopted FSP FAS 157-4 starting from interim condensed consolidated financial statements for the six months ended June 30, 2009. Adoption of FSP FAS 157-4 did not have a material impact on the Company's financial position and results of operations.

In May 2009, the FASB issued SFAS 165, *Subsequent Events* ("SFAS 165"). SFAS 165 establishes the accounting for, and disclosure of, material events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. In general, these events are recognized if the condition existed at the balance sheet date, and are not recognized if the condition did not exist at the balance sheet date. Disclosure is required for unrecognized material events to keep the financial statements from being misleading. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date—that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. The Company adopted SFAS 165 starting from interim condensed consolidated financial statements for the six months ended June 30, 2009 and evaluated subsequent events through the date these financial statements were issued, September 1, 2009.

Recent Accounting Standards

In June 2009, the FASB issued SFAS 166, *Accounting for Transfers of Financial Assets—an amendment of FASB Statement No.140*, ("SFAS 166") and SFAS 167, *Amendments to FASB Interpretation No. 46 R*, ("SFAS 167"). SFAS 166 is a revision to Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and will require more information about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures. SFAS 167 is a revision to FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*, and changes how a company determines when Variable Interest Entities should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. SFAS 166 and SFAS 167 shall be effective as of the beginning of annual reporting period and interim periods within that first annual reporting period that begins after November 15, 2009. The Company will adopt SFAS 166 and SFAS 167 for annual and interim reporting periods beginning after December 31, 2009. The Company has not yet identified the impact SFAS 166 and SFAS 167 will have on the Company's consolidated financial position and results of operations.

2. Significant Accounting Policies (continued)

Recent Accounting Standards (continued)

In June 2009, the FASB issued SFAS 168, *Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162* ("SFAS 168"). SFAS 168 will establish the Accounting Standards Codification ("ASC") as the source of authoritative US GAAP. ASC will supersede all other than issued by U.S. Security and Exchange Commission (SEC) accounting and reporting standards on the effective date, September 15, 2009. The Company will adopt SFAS 168 starting from the interim condensed consolidated financial statements for the nine months ended September 30, 2009. The Company will then be required to revise its references to US GAAP in accordance with ASC in its consolidated financial statements.

3. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	June 30, 2009 (unaudited)	December 31, 2008
Cash on hand and at bank accounts in RUB	**215**	412
Cash on hand and at bank accounts in foreign currencies	**601**	830
Deposits	**165**	21
Other	**17**	106
Total cash and cash equivalents	**998**	1,369

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

Deposits represent primarily bank deposits denominated in RUB that may be readily convertible into cash and may be withdrawn by the Company at any time without prior notice or penalties.

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, 2009 (unaudited)	December 31, 2008
Short-term loans granted	**1**	1
Loans to related parties	**11**	8
Reverse repurchase agreements	**94**	–
Structured deposits (Note 22)	**200**	–
Cash margin under repurchase agreement (Note 13)	**–**	893
Promissory notes held-to-maturity	**69**	600
Trading securities		
Promissory notes	**89**	1
State and corporate bonds	**245**	76
Other	**13**	4
Available-for-sale securities	**87**	22
Bank deposits	**315**	105
Total short-term investments	**1,124**	1,710

4. Short-term Investments (continued)

Reverse repurchase agreements are collateralized by trading securities at fair value as of June 30, 2009 in the amount of US$ 94 million, of which US$ 22 million were repledged under repurchase agreements (see Note 13) where the Company had a right to resell or repledge.

As of December 31, 2008, promissory notes held-to-maturity included an interest-free promissory note issued by a major state-owned Russian bank maturing on or after July 31, 2009. It was sold to state-owned Russian bank in the second quarter of 2009. Other RUB-denominated short-term promissory notes which are held to maturity bear an interest of 15%.

As of June 30, 2009, trading promissory notes included promissory notes with interest rates from 14.25% to 14.50% and nominally interest-free promissory notes with effective interest rates from 12.77% to 14.32%.

The fair value of held to maturity securities approximates their carrying value recognized in the financial statements.

State and corporate bonds include bonds issued by large Russian corporations, Ministry of Finance of the Russian Federation, and municipal bonds. US$ 27 million of the municipal bonds were pledged under repurchase agreements as of June 30, 2009 (see Note 13).

Available-for-sale securities include state and corporate bonds. 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% p.a. to 10.0% p.a. and municipal bonds with maturities ranging from June 2012 to June 2014 and nominal interest rates ranging from 8.0% p.a. to 16.0% p.a. The corporate bonds represent bonds issued by large Russian corporations with maturities ranging from September 2009 to July 2016 and interest rates ranging from 7.55% to 10.0% p.a.

Bank deposits are primarily denominated in US$ with interest rates of 7.25% maturing in more than 3 months. The remaining part of bank deposits is denominated in RUB with interest rates from 14.25% to 19.5% maturing in more than 3 months.

5. Accounts Receivable, Net

Accounts receivable comprise the following:

	June 30, 2009 (unaudited)	December 31, 2008
Trade receivables	**2,877**	1,785
Value-added tax receivable	**1,993**	1,907
Other taxes	**641**	1,349
Banking loans to customers	**1,014**	1,007
Acquired receivables	**55**	74
Other	**226**	311
Less: allowance for doubtful accounts	**(141)**	(134)
Total accounts receivable, net	**6,665**	6,299

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.

5. Accounts Receivable, Net (continued)

In the first quarter of 2009, profit tax receivable included within Other taxes, as of December 31, 2008, was settled through cash payments and a legal offset against current tax liabilities (see Note 14). The total amount of profit tax recovered was RUB 8.4 billion (US$ 247.5 million at the average exchange rate in the first quarter of 2009). In the second quarter of 2009, the profit tax, mineral extraction tax and excise tax receivable included within Other taxes in the table above were settled through cash payments and a legal offsets against current tax liabilities (see Note 14). The total amount of taxes recovered was RUB 7.0 billion (US$ 215.9 million at the average exchange rate in the second quarter of 2009). In the second quarter of 2009, VAT receivable included within Value-added tax receivable in the table above was settled through cash payments. The total VAT recovered was RUB 8.1 billion (US$ 251.0 million at the average exchange rate in the second quarter of 2009).

6. Inventories

Inventories comprise the following:

	June 30, 2009 (unaudited)	December 31, 2008
Materials and supplies	**457**	478
Crude oil and gas	**337**	252
Petroleum products	**731**	697
Total inventories	**1,525**	1,427

Materials and supplies mostly include spare parts. Petroleum products also 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, 2009 (unaudited)	December 31, 2008
Prepayments to suppliers	**479**	651
Prepayments to customs brokers	**463**	683
Insurance prepayments	**16**	6
Customs	**211**	415
Other	**56**	91
Total prepayments and other current assets	**1,225**	1,846

Customs primarily represent export duty prepayments related to the export of crude oil and petroleum products (see Note 16).

8. Long-Term Investments

Long-term investments comprise the following:

	June 30, 2009 (unaudited)	December 31, 2008
Equity method investments		
OJSC Tomskneft VNK	**1,540**	1,475
Polar Lights Company LLC	**90**	94
JV Rosneft-Shell Caspian Ventures Limited	**20**	19
OJSC Verkhnechonskneftegaz	**213**	218
CJSC Vlakra	**109**	109
OJSC Kubanenergo	**81**	94
Other	**175**	164
Total equity method investments	**2,228**	2,173
Available-for-sale securities		
OJSC TGK-11	**12**	7
Long-term promissory notes	**3**	4
Deposits in state-controlled bank – US$ denominated	**801**	–
Held-to-maturity securities		
Russian government bonds	**31**	29
Long-term loans granted	**–**	1
Long-term loans to equity investees	**458**	467
Cost method investments	**17**	14
Total long-term investments	**3,550**	2,695

US$ denominated deposits in state-controlled bank were placed in June 2009 for two years at an interest rate of 8% and the Company has the right of early withdrawal after six, nine and twelve months from the placement date.

Equity share in profits/(losses) of material equity investees comprise the following:

	Participation interest (percentage) as of June 30, 2009	Share in profits/(losses) of equity investees: Six months ended June 30, 2009 (unaudited)	Share in profits/(losses) of equity investees: Six months ended June 30, 2008 (unaudited)
Polar Lights Company LLC	**50.00**	**9**	41
OJSC Verkhnechonskneftegaz	**25.94**	**(5)**	(9)
JV Rosneft-Shell Caspian Ventures Limited	**51.00**	**1**	2
OJSC Tomskneft VNK	**50.00**	**65**	92
OJSC Daltransgaz	**–**	**–**	(1)
Other	**various**	**(54)**	1
Total equity share in profits/(losses)		**16**	126

9. Property, Plant and Equipment

Property, plant and equipment comprise the following:

	Cost		Accumulated depreciation		Net carrying amount	
	June 30, 2009 (unaudited)	December 31, 2008	June 30, 2009 (unaudited)	December 31, 2008	June 30, 2009 (unaudited)	December 31, 2008
Exploration and production	**57,338**	54,876	**(12,669)**	(11,163)	**44,669**	43,713
Refining, marketing and distribution	**12,993**	12,777	**(3,626)**	(3,300)	**9,367**	9,477
Other activities	**2,543**	2,510	**(553)**	(496)	**1,990**	2,014
Total property, plant and equipment	**72,874**	70,163	**(16,848)**	(14,959)	**56,026**	55,204

10. Goodwill and Intangible Assets

As of June 30, 2009 and December 31, 2008, goodwill represents the excess of the purchase price of additional shares and interests in various entities acquired in the refining, marketing and distribution segment and the exploration and production segment in the amounts of US$ 3,793 million and US$ 714 million, respectively, over the fair value of the corresponding share in net assets.

Intangible assets comprise the following:

	Cost		Accumulated amortization		Net carrying amount	
	June 30, 2009 (unaudited)	December 31, 2008	June 30, 2009 (unaudited)	December 31, 2008	June 30, 2009 (unaudited)	December 31, 2008
Land leasehold rights	**718**	718	**(71)**	(53)	**647**	665
Other	**20**	19	**(6)**	(5)	**14**	14
Total intangible assets	**738**	737	**(77)**	(58)	**661**	679

11. Other Non-Current Assets

Other non-current assets comprise the following:

	June 30, 2009 (unaudited)	December 31, 2008
Advance payment in favor of Factorias Vulcano S.A.	**88**	178
Advances paid for capital construction	**771**	739
Advances paid for “Sochi 2014” trademarks	**94**	–
Deferred rentals	**155**	–
Debt issue costs	**107**	118
Prepaid insurance	**12**	14
Long-term receivables (Note 20)	**22**	23
Interest rate SWAP contract (Note 22)	**15**	–
Other	**85**	105
Total other non-current assets	**1,349**	1,177

Deferred rentals represent loss from modification of capital lease arrangement to operating lease. This amount is amortizable for five years.

12. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities comprise the following:

	June 30, 2009 (unaudited)	December 31, 2008
Trade accounts payable	**1,407**	1,432
Salary and other benefits payable	**460**	405
Advances received	**233**	268
Dividends payable	**601**	2
Banking customer accounts	**861**	763
Accrued expenses	**83**	71
Other	**122**	155
Total accounts payable and accrued liabilities	**3,767**	3,096

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

13. Short-Term Loans and Long-Term Debt

Short-term loans and borrowings comprise the following:

	June 30, 2009 (unaudited)	December 31, 2008
Bank loans – foreign currencies	**25**	608
Bank loans – RUB denominated	**21**	2,639
Customer deposits – foreign currencies	**197**	149
Customer deposits – RUB denominated	**170**	213
Promissory notes payable	**32**	1,598
Promissory notes payable – Yukos related	**1,393**	687
Borrowings – RUB denominated	**348**	309
Borrowings – RUB denominated – Yukos related	**630**	650
Repurchase agreements	**44**	1,916
	2,860	8,769
Current portion of long-term debt	**6,173**	5,315
Total short-term loans and borrowings and current portion of long-term debt	**9,033**	14,084

As of June 30, 2009, weighted average interest rates on short-term loans in foreign currency and in RUB were 1.26% and 12.64%, respectively.

Customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary bank, denominated in RUB and foreign currencies. Customer deposits denominated in RUB bear an interest rate ranging from 0.01% p.a. to 15.0% p.a. Customer deposits denominated in foreign currencies bear an interest rate ranging from 0.01% p.a. to 13.3% p.a.

As of June 30, 2009, weighted average interest rate on promissory notes was 9.6%. The promissory notes are recorded at amortized cost.

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

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

As of June 30, 2009, promissory notes which mature within 12 months were reclassified to short-term borrowings.

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% p.a. and matured at the end of 2007 (see Note 20).

In June 2008, the Group sold 412.86 million treasury shares of Rosneft to a syndicate of international banks for a cash consideration of US$ 2.35 billion payable under a repurchase agreement. The Company had a right and obligation to repurchase the shares within one year. The repurchase obligation carried an interest of 5.76% p.a. In accordance with the repurchase agreement, this transaction was accounted for in the consolidated balance sheet as secured financing. In 2008, as a result of margin calls Rosneft transferred an additional 82.07 million treasury shares as collateral and paid US$ 1.39 billion in cash, of which US$ 0.5 billion was credited towards the repurchase obligation. In June 2009, the Company redeemed all pledged treasury shares of Rosneft for US$ 1.86 billion net of cash deposits in the amount of US$ 118 million.

In the second quarter of 2009, the Company received cash under repurchase agreements and recorded this transaction as secured financing. As of June 30, 2009 the amounts owed under these repurchase agreements were RUB 1.3 billion (US$ 44 million at the CBR official exchange rate as of June 30, 2009) and were collateralized by state bonds owned by the Company with the fair value of US$ 27 million and bonds purchased under reverse sale and repurchase agreement with the fair value of US$ 22 million which the Company had a right to sell or repledge (see Note 4).

Long-term debt comprises the following:

	June 30, 2009 (unaudited)	**December 31, 2008**
Bank loans – foreign currencies	**16,721**	11,645
Bank loans raised for funding the acquisition of OJSC Yuganskneftegaz – US$ denominated	**2,041**	2,641
Borrowings – US$ denominated	**5**	9
Borrowings – RUB denominated	**18**	18
Customer deposits – foreign currencies	**37**	15
Customer deposits – RUB denominated	**118**	91
Promissory notes payable	**6**	48
Promissory notes payable – Yukos related	**1**	929
	18,947	15,396
Current portion of long-term debt	**(6,173)**	(5,315)
Total long-term debt	**12,774**	10,081

In January 2009, Rosneft raised a syndicated floating rate bank loan in the amount of US$ 1.35 billion which is repayable within 15 months and secured by oil export contracts.

In February 2009, Rosneft secured and agreed principle terms of a long-term floating rate loan from a foreign bank in the amount of up to US$ 15 billion. The loan is repayable within 20 years and secured by oil export contracts. In the second quarter of 2009, Rosneft received US$ 5 billion under this loan agreement.

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

The interest rates on the Company's long-term bank loans denominated in foreign currencies range from LIBOR plus 0.5% to LIBOR plus 3.25% p.a. These bank loans are primarily secured by contracts for the export of crude oil.

As of June 30, 2009, the bank loans raised for funding the acquisition of OJSC Yuganskneftegaz represent a long-term loan obtained through a government-owned bank at a rate of LIBOR plus 0.7% p.a. repayable in equal monthly installments. It is scheduled to be fully repaid in 2011. This loan is secured by the Company's receivables under a long-term export contract for the supply of crude oil (see Note 20).

Customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary bank, denominated in RUB and foreign currencies. The RUB-denominated deposits bear interest rates ranging from 3.0% p.a. to 14.3% p.a. Deposits denominated in foreign currencies bear interest rates of 3.0%- 12.1% p.a.

Promissory notes payable include promissory notes with the effective interest rates ranging from 11.0% p.a. to 14.17% p.a. The promissory notes mature primarily in 2009 and are recorded at amortized cost.

Promissory notes payable – Yukos related, represent financing originally received from the entities that were related to Yukos Oil Company on the debt issue date. The promissory notes bear interest rates ranging from 0% p.a. to 12% p.a. and mature primarily in 2010 - 2014. The promissory notes are recorded at amortized cost. In the first half of 2009, 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 income. As of June 30, 2009, promissory notes which mature within 12 months were reclassified to short-term borrowings.

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 of June 30, 2009, 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, 2009 is as follows:

	(Unaudited)
Until December 31, 2009	**3,771**
2010	**4,686**
2011	**2,704**
2012	**2,009**
2013	**777**
2014 and after	**5,000**
Total long-term debt	**18,947**

14. Income and Other Tax Liabilities

Income and other tax liabilities comprise the following:

	June 30, 2009 (unaudited)	December 31, 2008
Mineral extraction tax	**744**	393
Value-added tax	**240**	244
Excise tax	**149**	138
Personal income tax	**19**	20
Property tax	**57**	66
Income tax	**–**	113
Other	**77**	120
Total income and other tax liabilities	**1,286**	1,094

Tax liabilities above include the respective current portion of non-current restructured tax liabilities (see Note 18).

15. Shareholders' Equity

On June 19, 2009, the annual general shareholders' meeting approved dividends on the Company's common shares for 2008 in the amount of RUB 20.3 billion or RUB 1.92 per share, which corresponds to US$ 654 million or US$ 0.06 per share at the CBR official exchange rate at the approval date. US$ 600 million of the above relate to outstanding shares, including tax on dividends on treasury shares.

16. Export Customs Duty

Export customs duty comprises the following:

	Three months ended June 30, 2009 (unaudited)	Three months ended June 30, 2008 (unaudited)	Six months ended June 30, 2009 (unaudited)	Six months ended June 30, 2008 (unaudited)
Oil and gas sales				
Export customs duty	**1,669**	4,665	**3,057**	8,115
Petroleum products sales and processing fees				
Export customs duty	**522**	1,142	**976**	2,170
Total export customs duty	**2,191**	5,807	**4,033**	10,285

17. Income and Other Taxes

Income tax expenses comprise the following:

	Three months ended June 30, 2009 (unaudited)	Three months ended June 30, 2008 (unaudited)	Six months ended June 30, 2009 (unaudited)	Six months ended June 30, 2008 (unaudited)
Current income tax expense	**346**	1,704	**544**	2,808
Deferred income tax expense/(benefit)	**50**	(234)	**(21)**	(502)
Total income tax expense	**396**	1,470	**523**	2,306

The most significant reconciling item between theoretical income tax expense and recorded tax is foreign exchange.

17. Income and Other Taxes (continued)

As of June 30, 2009, 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.

During the six months ended June 30, 2009, the tax authorities held tax examinations in the Company and its subsidiaries for 2005-2008 fiscal years. The Company does not expect results of examinations to have a material impact on the Company's consolidated financial statements. Tax years or periods prior to 2005 are not subject to examination.

The following table shows a reconciliation of the beginning and ending unrecognized tax benefits for the six months ended June 30, 2009 and 2008:

	Six months ended June 30, 2009 (unaudited)	**Six months ended June 30, 2008 (unaudited)**
Unrecognized tax benefits at the beginning of the reporting period	**14**	18
Increase for tax positions of prior years	**4**	31
Decrease for unrecognized tax benefits due to settlements with tax authorities	**(7)**	–
Unrecognized tax benefits at the end of the reporting period	**11**	49

The total amount of unrecognized tax benefits that, if recognized, would affect the effective income tax rate is US$ 4 million and US$ 31 million as of June 30, 2009 and 2008, respectively.

Accrued liabilities for interest and penalties for income tax totalled US$ 277 million and US$ 302 million as of June 30, 2009 and December 31, 2008, respectively. Decrease in interest for income tax in the amount of US$ 5 million and increase in the amount of US$ 22 million were accrued in the consolidated statement of income and comprehensive income for the six months ended June 30, 2009 and 2008, respectively.

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

	Three months ended June 30, 2009 (unaudited)	**Three months ended June 30, 2008 (unaudited)**	**Six months ended June 30, 2009 (unaudited)**	**Six months ended June 30, 2008 (unaudited)**
Mineral extraction tax	**1,508**	4,007	**2,494**	7,083
Excise tax	**233**	298	**417**	611
Property tax	**59**	67	**107**	131
Other	**132**	163	**261**	300
Total taxes other than income tax	**1,932**	4,535	**3,279**	8,125

18. Other Non-Current Liabilities

Other non-current liabilities comprise the following:

	June 30, 2009 (unaudited)	December 31, 2008
	1,376	1,611
Long-term lease obligations	**34**	86
Deferred income	**54**	63
Liabilities to municipalities under amicable agreements	**82**	91
Other	**9**	19
Total other non-current liabilities	**1,555**	1,870

In February and March 2008, the Company received signed resolutions of the Government of the Russian Federation and relevant regional and local authorities regarding the restructuring of the respective tax liabilities. Under the tax restructuring plan, the outstanding tax liabilities shall be repaid quarterly within five years starting from March 2008. The Company's payments excluding interest amounted to RUB 2,683 million (US$ 82.8 million at the CBR official exchange rate as of the payment dates) and RUB 2,324 million (US$ 98.7 million at the CBR official exchange rate as of the payment dates) for the six months ended June 30, 2009 and 2008, respectively.

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

19. 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, 2009 and December 31, 2008 are provided in the tables below:

	Six months ended June 30, 2009 (unaudited)	Six months ended June 30, 2008 (unaudited)
Revenues and Income		
Oil and gas sales	**69**	89
Sales of petroleum products and processing fees	**122**	136
Support services and other revenues	**55**	19
Interest income	**14**	19
	260	263
Costs and expenses		
Production and operating expenses	**146**	138
Pipeline tariffs and transportation costs	**1,339**	1,715
Other expenses	**27**	33
Interest expense	**99**	122
Banking fees	**6**	6
	1,617	2,014
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	**1**	–
Repayment of short-term and long-term debt	**2,996**	1,123
Deposits placed	**993**	1,422
Deposits paid	**95**	93

19. Related Party Transactions (continued)

	June 30, 2009 (unaudited)	December 31, 2008
Assets		
Cash and cash equivalents	**143**	617
Accounts receivable	**74**	158
Prepayments and other current assets	**197**	278
Short-term and long-term investments	**1,093**	105
	1,507	1,158
Liabilities		
Accounts payable	**29**	28
Short-term and long-term debt (including interest)	**2,044**	5,211
	2,073	5,239

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, 2009 and December 31, 2008 are provided in the tables below:

	Six months ended June 30, 2009 (unaudited)	Six months ended June 30, 2008 (unaudited)
Revenues and Income		
Oil and gas sales	**12**	25
Sales of petroleum products and processing fees	**38**	138
Support services and other revenues	**165**	164
Interest income	**8**	4
Dividends received	**15**	27
	238	358
Costs and expenses		
Production and operating expenses	**104**	101
Purchase of oil and petroleum products	**536**	313
Other expenses	**47**	127
Interest expense	–	2
	687	543
Other operations		
Purchase of short-term and long-term investments	**110**	12
Proceeds from short-term and long-term debt	**61**	253
Repayment of short-term and long-term debt	**4**	6
Borrowings issued	**8**	80
Repayment of borrowings issued	**2**	137

	June 30, 2009 (unaudited)	December 31, 2008
Assets		
Accounts receivable	**13**	132
Prepayments and other current assets	**15**	15
Short-term and long-term investments	**227**	214
	255	361
Liabilities		
Accounts payable	**178**	213
Short-term and long-term debt (including interest)	**333**	297
	511	510

20. 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 but not limited 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 ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Company and its counterparties, which could affect the Company’s financial position, results of operations and business prospects.

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

Taxation

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

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

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

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

20. Commitments and Contingencies (continued)

Taxation (continued)

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 2008 and 2009, the tax authorities performed tax examinations of the Company and its subsidiaries for 2006-2007 fiscal years. The Company does not expect results of the examinations to have a material impact on the Company's consolidated financial statements.

The Company is currently challenging a number of decisions made by the tax authorities to accrue additional and decline reimbursement of VAT paid to suppliers in the amount of RUB 7,963 million (US$ 254 million at the CBR official exchange rate as of June 30, 2009) and with respect to excise tax in the amount of RUB 7,685 million (US$ 246 million at the CBR official exchange rate as of June 30, 2009).

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

Capital Commitments

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

Environmental Matters

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

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

20. Commitments and Contingencies (continued)

Environmental Matters (continued)

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

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

Social Commitments

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

The Company incurred US$ 13 million and US$ 24 million in social infrastructure and similar expenses for the first six months of 2009 and 2008, respectively. These expenses are presented as 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 contributes to a corporate pension fund to finance non-state pensions of its employees. The corporate pension fund is similar to a defined contribution plan. For the first six months of 2009 and 2008, the Company made contributions to the corporate pension fund amounting to US$ 50 million in each period.

Insurance

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

As of June 30, 2009 and December 31, 2008, the amount of coverage of assets under such insurance amounted to US$ 18,856 million and US$ 21,750 million, respectively.

Guarantees and Indemnity

As of June 30, 2009, 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.

20. 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 of RUB 1.5 billion (US$ 48 million at the CBR official exchange rate as of June 30, 2009). In the first quarter of 2009, this guarantee agreement was extended to December 31, 2012.

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

Litigation, 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 Court of Commercial Arbitration (the "ICCA") 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$ 412 million at the CBR official exchange rate as of June 30, 2009). 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, 2009).

In 2007, the Company successfully challenged the ICCA awards and the ICCA 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 ICCA awards in the Netherlands. The district court in Amsterdam refused to enforce the ICCA 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 ICCA awards in the Netherlands. The Company appealed the decision of the Amsterdam Court of Appeals to the Supreme Court of the Netherlands.

To the best of the Company's knowledge, no attempt has been made by Yukos Capital S.a.r.l. to enforce the ICC awards against OJSC Samaraneftegas. Additionally, 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 are expected for the second half of 2009.

The Company continues to reflect the liability under these loan agreements in its consolidated financial statements (see Note 13) and believes that payments in excess of the recorded amounts are possible but can not be reasonably estimated.

20. Commitments and Contingencies (continued)

Litigation, Claims and Assessments (continued)

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, 2009). 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 11).

The Company is also a plaintiff in arbitral proceedings against OJSC National Bank TRUST (further 'TRUST') for the repayment under a deposit agreement. On June 30, 2008, the court of first instance upheld the full amount of claims filed by Rosneft against TRUST. The decision was upheld by appeal court on December 30, 2008. On July 23, 2009 the cassational court nullified the above decisions and returned the matter to the arbitration court of first instance for reconsideration. However, the Company continues to believe that the maximum amount of possible loss is limited by the amounts currently recorded in the consolidated balance sheet at the rate of RUB 1,179 million (US$ 38 million at the CBR official exchange rate as of June 30, 2009).

In the second half of 2008 and first half of 2009, the Federal Antimonopoly Service ("FAS Russia") and its regional bodies ruled 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 2,142 million (US$ 68 million at the CBR official exchange rate as of June 30, 2009). The Company is appealing the rulings and believes that payments of some portion of the above penalties are possible but the ultimate amount can not be reasonably estimated. Also see Note 23.

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.

Licence Agreements

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

Oil Supplies

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

In April 2009, Rosneft entered into a long-term contract with OJSC AK Transneft for the sale of crude oil for the years 2011 to 2030 in the total amount of 120 million tons to be delivered in equal annual amounts. The prices are determined based on agreed formula linked to market prices.

21. Segment Information

Presented below is information about the Company's operating segments in accordance with SFAS 131, *Disclosures about Segments of an Enterprise and Related Information.* The Company determines its operating segments based on the nature of their operations. The performance of these operating segments is assessed by management on a regular basis. The E&P segment is engaged in field exploration and development and production of crude oil and natural gas. The R&M 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 interim condensed consolidated financial statements. Sales transactions for goods and services between the operating segments are carried out using prices agreed upon between Rosneft and its subsidiaries.

Operating segments for three months ended June 30, 2009:

	Exploration and production (unaudited)	Refinery, 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 expenses, net					**(551)**
Income before tax					**1,989**

21. Segment Information (continued)

Operating segments for three months ended June 30, 2008:

	Exploration and production (unaudited)	Refinery, marketing and distribution (unaudited)	All other (unaudited)	Total elimination (unaudited)	Consolidated (unaudited)
Revenues from external customers	634	20,200	300	–	21,134
Intersegmental revenues	2,822	763	1,178	(4,763)	–
Total revenues	3,456	20,963	1,478	(4,763)	21,134
Production and operating expenses and cost of purchased oil, gas and petroleum products	658	1,016	184	–	1,858
Depreciation, depletion and amortization	834	202	40	–	1,076
Operating income	1,722	8,335	651	(4,763)	5,945
Total other expenses, net					(131)
Income before tax					5,814

Operating segments for six months ended June 30, 2009:

	Exploration and production (unaudited)	Refinery, 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**

21. Segment Information (continued)

Operating segments for six months ended June 30, 2008:

	Exploration and production (unaudited)	Refinery, marketing and distribution (unaudited)	All other (unaudited)	Total elimination (unaudited)	Consolidated (unaudited)
Revenues from external customers	1,076	35,919	507	–	37,502
Intersegmental revenues	5,372	1,536	2,424	(9,332)	–
Total revenues	6,448	37,455	2,931	(9,332)	37,502
Production and operating expenses and cost of purchased oil, gas and petroleum products	1,228	2,077	342	–	3,647
Depreciation, depletion and amortization	1,606	356	68	–	2,030
Operating income	3,055	14,468	1,458	(9,332)	9,649
Total other expenses, net					(429)
Income before tax					9,220

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, 2009 (unaudited)	Three months ended June 30, 2008 (unaudited)	Six months ended June 30, 2009 (unaudited)	Six months ended June 30, 2008 (unaudited)
Oil and gas sales				
Export sales of crude oil – Europe and other directions	**4,164**	8,424	**7,153**	14,434
Export sales of crude oil – Asia	**1,111**	2,489	**1,957**	4,346
Export sales of crude oil – CIS	**318**	707	**577**	1,338
Domestic sales of crude oil	**20**	51	**34**	127
Domestic sales of gas	**83**	96	**163**	213
Total oil and gas sales	**5,696**	11,767	**9,884**	20,458
Sales of petroleum products				
Export sales of petroleum products – Europe	**1,653**	2,841	**2,914**	5,229
Export sales of petroleum products – Asia	**1,183**	2,012	**2,045**	3,598
Export sales of petroleum products – CIS	**20**	186	**70**	376
Domestic sales of petroleum products and processing fees	**2,021**	3,813	**3,640**	6,882
Sale of petrochemical products	**56**	142	**84**	274
Total petroleum products sales	**4,933**	8,994	**8,753**	16,359

22. Fair Value of Financial Instruments and Risk Management

Effective January 1, 2008, the Company adopted SFAS 157 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. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs when measuring fair value.

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

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

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

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

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, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Current assets				
Trading securities	120	227	–	347
Available-for-sale securities	43	44	–	87
Non-current assets				
Derivatives	–	15	–	15
Available-for-sale securities	12	3	–	15
Total assets measured at fair value	**175**	**289**	**–**	**464**
Liabilities:				
Derivatives	–	(150)	–	(150)
Total liabilities measured at fair value	**–**	**(150)**	**–**	**(150)**

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

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

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 Company's management believes that accounts receivable recorded net of allowance for doubtful accounts will be recovered in full during an acceptable time period. 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$ 17,090 million and US$ 14,153 million as of June 30, 2009, and December 31, 2008, respectively. These amounts include all future cash outflows related to the repayment of long-term loans, including their current portion and interest expenses.

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 increased interest expense accrued on loans received by the Company. Hedge accounting pursuant to SFAS 133 is not applied to these instruments.

In December 2007, the Company entered into 5-year interest rate swap contract with a notional amount of US$ 3 billion. Under the terms of the contract, a floating LIBOR rate may be converted into a certain fixed rate. The other party has a call option to terminate the deal. The fair value of the interest swap contract was recorded in the consolidated balance sheets as of June 30, 2009 and December 31, 2008 as other current liabilities in the amount of US$ 149.9 million and US$ 189.8 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, 2009 as a reducing component of interest expense in the amount of US$ 39.9 million.

In December 2008, the Company entered into 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 sheet as of June 30, 2009 as other non-current assets (see Note 11) and as of December 31, 2008 as other non-current liabilities in the amount of US$ 14.5 million and US$ 0.8 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, 2009 as a reducing component of interest expense in the amount of US$ 15.3 million.

In June 2009, the Company entered into a fixed interest rate structured deposit agreement with the nominal amount of US$ 200 million (see Note 4) with expiration date in September 2009. 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. In accordance with SFAS 133 embedded call option was bifurcated from the host contract and recorded at fair value in the consolidated balance sheet as of June 30, 2009 as other current asset in the amount of US$ 0.3 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, 2009 as a component of foreign exchange gain in the amount of US$ 0.3 million.

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

The fair value of the interest rate swap contracts and embedded call option is based on estimated amounts that the Company would pay or receive upon termination of the contracts as of June 30, 2009.

23. Subsequent Events

In July 2009, FAS Russia further ruled that the Company violated certain other antimonopoly regulations in relation to petroleum products trading. As of the date these financial statements were issued, the Company has not received a formal claim from FAS Russia. The Company believes that the amount and probability of payments under this ruling can not be reasonably estimated until the formal claim is received.