



ROSNEFT

O I L C O M P A N Y

OPEN JOINT STOCK COMPANY

Rosneft Oil Company

**Interim Condensed Consolidated Financial
Statements (Unaudited)**

Three and nine months ended September 30, 2010 and 2009

Rosneft Oil Company

Interim Condensed Consolidated Financial Statements (Unaudited)

Three and nine months ended September 30, 2010 and 2009

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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 September 30, 2010, and the related consolidated statements of income and comprehensive income for the three-month and nine-month periods ended September 30, 2010 and 2009, and the consolidated statements of cash flows for the nine-month periods ended September 30, 2010 and 2009. This interim condensed consolidated financial information is the responsibility of the Company's management.

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

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

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

Ernst & Young LLC

November 1, 2010

Rosneft Oil Company
Consolidated Balance Sheets

(in millions of US dollars, except share amounts)

	Notes	September 30, 2010 (unaudited)	December 31, 2009
ASSETS			
Current assets:			
Cash and cash equivalents	3	2,336	1,997
Restricted cash		21	20
Short-term investments	4	5,079	2,508
Accounts receivable, net	5	7,296	6,458
Inventories	6	1,973	1,886
Deferred tax assets		143	174
Prepayments and other current assets	7, 21	1,733	2,126
Total current assets		18,581	15,169
Non-current assets:			
Long-term investments	8	3,066	3,744
Long-term bank loans granted, net of allowance of US\$ 10 and US\$ 17, respectively		371	326
Property, plant and equipment, net	9	59,717	57,704
Goodwill		4,507	4,507
Intangible assets, net		783	811
Deferred tax assets		118	125
Other non-current assets	10	841	846
Total non-current assets		69,403	68,063
Total assets		87,984	83,232
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	11	4,648	3,697
Short-term loans and current portion of long-term debt	12	5,853	7,838
Income and other tax liabilities	13	1,978	1,627
Deferred tax liabilities		86	77
Other current liabilities	21	284	204
Total current liabilities		12,849	13,443
Asset retirement obligations		1,885	1,772
Long-term debt	12	14,685	15,669
Deferred tax liabilities		4,813	5,197
Other non-current liabilities	17	1,310	1,614
Total non-current liabilities		22,693	24,252
Equity:			
Common stock par value 0.01 RUB (shares outstanding: 9,597.43 million as of September 30, 2010 and December 31, 2009)		20	20
Treasury shares (at acquisition cost: 1,000.75 million as of September 30, 2010 and December 31, 2009)		(7,525)	(7,525)
Additional paid-in capital		13,108	13,108
Other comprehensive loss	2	(19)	(22)
Retained earnings		45,933	39,250
Total shareholders' equity		51,517	44,831
Noncontrolling interests		925	706
Total equity		52,442	45,537
Total liabilities and equity		87,984	83,232

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

Rosneft Oil Company

Consolidated Statements of Income and Comprehensive Income

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

	Notes	Three months ended September 30, 2010 (unaudited)	Three months ended September 30, 2009 (unaudited)	Nine months ended September 30, 2010 (unaudited)	Nine months ended September 30, 2009 (unaudited)
Revenues					
Oil and gas sales	20	8,289	6,822	24,940	16,706
Petroleum products and petrochemicals sales	20	6,758	5,898	19,522	14,651
Support services and other revenues		424	328	1,201	902
Total		15,471	13,048	45,663	32,259
Costs and expenses					
Production and operating expenses		1,161	1,037	3,344	2,884
Cost of purchased oil, gas and petroleum products		617	525	1,747	1,309
General and administrative expenses		438	348	1,167	1,024
Pipeline tariffs and transportation costs		1,701	1,330	5,217	3,833
Exploration expense		82	74	221	271
Depreciation, depletion and amortization		1,399	1,148	4,019	3,140
Accretion expense		26	23	80	64
Taxes other than income tax	16	2,722	2,335	7,990	5,614
Export customs duty	15	4,112	3,740	12,151	7,773
Total		12,258	10,560	35,936	25,912
Operating income		3,213	2,488	9,727	6,347
Other (expenses)/income					
Interest income		148	154	397	342
Interest expense		(155)	(205)	(497)	(444)
Loss on disposal of non-current assets		(26)	(44)	(81)	(94)
(Loss)/gain on disposal of investments		(4)	(20)	14	(2)
Equity share in affiliates' (loss)/profits	8	(1)	15	67	31
Dividends and loss from joint ventures		12	(1)	6	(7)
Other income/(loss), net		7	(279)	15	(271)
Foreign exchange gain/(loss)		6	(247)	16	160
Total other (expenses)/income		(13)	(627)	(63)	(285)
Income before income tax		3,200	1,861	9,664	6,062
Income tax	16	(632)	(698)	(2,048)	(1,221)
Net income		2,568	1,163	7,616	4,841
Net (income)/loss attributable to noncontrolling interests		(78)	5	(219)	(1)
Net income attributable to Rosneft		2,490	1,168	7,397	4,840
Other comprehensive income	2	3	5	3	11
Comprehensive income		2,493	1,173	7,400	4,851
Net income attributable to Rosneft per share					
(in US\$) – basic and diluted		0.26	0.12	0.77	0.50
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	Nine months ended September 30, 2010 (unaudited)	Nine months ended September 30, 2009 (unaudited)
Operating activities			
Net income		7,616	4,841
Adjustments to reconcile net income to net cash provided by operating activities:			
Effect of foreign exchange		(10)	(444)
Depreciation, depletion and amortization		4,019	3,140
Dry hole costs		32	113
Loss on disposal of non-current assets		81	94
Deferred income tax benefit	16	(319)	(6)
Accretion expense		80	64
Equity share in affiliates' profits	8	(67)	(31)
(Gain)/loss on disposal of investments		(14)	2
Increase in allowance for doubtful accounts and bank loans granted		6	43
Gain on extinguishment of promissory notes	12	(166)	(150)
Changes in operating assets and liabilities net of acquisitions:			
Increase in accounts receivable		(695)	(1,131)
Increase in inventories		(87)	(270)
Increase in restricted cash		(1)	(12)
Decrease in prepayments and other current assets		393	466
Decrease in other non-current assets		10	87
Increase in long-term bank loans granted		(42)	–
(Decrease)/increase in interest payable		(67)	4
Increase in accounts payable and accrued liabilities		324	415
Increase in income and other tax liabilities		351	615
Decrease in other current and non-current liabilities		(211)	(352)
Acquisition of trading securities		(378)	(439)
Proceeds from sale of trading securities		681	214
Net cash provided by operating activities		11,536	7,263

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	Nine months ended September 30, 2010 (unaudited)	Nine months ended September 30, 2009 (unaudited)
Investing activities			
Capital expenditures		(6,163)	(5,156)
Acquisition of licenses		(26)	(78)
Acquisition of rights to use trademarks "Sochi 2014"		(14)	(99)
Proceeds from disposal of property, plant and equipment		34	22
Acquisition of short-term investments, including			
Held-to-maturity securities		(2,611)	(1,974)
Available-for-sale securities		(594)	(55)
Proceeds from redemption/sale of short-term investments, including			
Held-to-maturity securities		962	2,173
Available-for-sale securities		165	19
Acquisition of long-term investments, including			
Held-to-maturity securities		(193)	(66)
Available-for-sale securities		(9)	(1,020)
Proceeds from redemption/sale of long-term investments, including			
Held-to-maturity securities		14	1
Available-for-sale securities		1	-
Acquisition of entities, additional shares in subsidiaries and equity investees, net of cash acquired		(6)	-
Margin call deposit placed		-	(315)
Margin call deposit returned		-	1,208
Net cash used in investing activities		(8,440)	(5,340)
Financing activities			
Proceeds from short-term debt		191	295
Repayment of short-term debt		(650)	(6,581)
Proceeds from long-term debt		1,663	8,633
Repayment of long-term debt		(3,946)	(4,676)
Cash paid for acquisition of treasury shares		-	(5)
Dividends paid to shareholders		-	(5)
Dividends paid to minority shareholders in subsidiaries		(8)	(2)
Net cash used in financing activities		(2,750)	(2,341)
Increase/(decrease) in cash and cash equivalents		346	(418)
Cash and cash equivalents at beginning of period		1,997	1,369
Effect of foreign exchange on cash and cash equivalents		(7)	(13)
Cash and cash equivalents at end of period		2,336	938
Supplementary disclosures of cash flow information			
Cash paid for interest		574	615
Cash paid for interest (net of amount capitalized)		327	317
Cash paid for income tax		2,147	953
Supplementary disclosure of non-cash activities			
Income tax offsets		-	288

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

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

Three and nine months ended September 30, 2010 and 2009

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

1. Nature of Operations

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

2. Significant Accounting Policies

Form and Content of the Interim Condensed Consolidated Financial Statements

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

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

The interim condensed consolidated financial statements included herein are unaudited and have been prepared in accordance with US GAAP for interim financial reporting of public companies (primarily FASB ASC 270, *Interim Reporting*) and do not include all disclosures required by US GAAP. The Company omitted disclosures which would substantially duplicate the information contained in its 2009 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Company has provided disclosures where significant events have occurred subsequent to the issuance of its 2009 audited consolidated financial statements. Management believes that the disclosures are adequate to make the information presented not misleading if these interim condensed consolidated financial statements are read in conjunction with the Company's 2009 audited consolidated financial statements and the notes related thereto. In the opinion of management, the financial statements reflect all adjustments of a normal and recurring nature necessary to present fairly the Company's consolidated financial position, results of operations and cash flows for the interim periods.

The results of operations for nine months ended September 30, 2010 may not be indicative of the results of operations for the full year ended December 31, 2010. Subsequent events have been evaluated through November 1, 2010, the date these interim condensed consolidated financial statements were issued.

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

2. Significant Accounting Policies (continued)

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

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

Management Estimates

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

Foreign Currency Translation

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

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

As of September 30, 2010 and December 31, 2009, the CBR official rates of exchange were 30.40 rubles ("RUB") and 30.24 RUB per US\$, respectively. Average rates of exchange in nine months of 2010 and 2009 were 30.25 RUB and 32.48 RUB per US\$, respectively. As of November 1, 2010, the official rate of exchange was 30.78 RUB per US\$.

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

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

2. Significant Accounting Policies (continued)

Principles of Consolidation

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

Business Combinations

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

Goodwill and Other Intangible Assets

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

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

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

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

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments

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

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

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

Income Tax

The Company follows the provisions of FASB ASC 740-270, *Income Taxes (Interim Reporting)*, to arrive at the effective tax rate. The effective tax rate is the best estimate of the expected annual tax rate to be applied to the taxable income for the current reporting period. The rate is based on the currently enacted tax rate (20%) and includes estimates of the annual tax effect of permanent differences and the realization of certain deferred tax assets. The expected effective tax rate may vary during the year.

Derivative Instruments

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

Comprehensive Income

The Company applies FASB ASC 220, *Comprehensive Income*, which establishes standards for the calculation and reporting of the Company's comprehensive income (net income plus all other changes in net assets from non-owner sources) and its components in consolidated financial statements.

For the nine months ended September 30, 2010 and 2009, the Company recorded other accumulated comprehensive income (net of tax) in the amount of US\$ 3 million and US\$ 11 million, respectively, which represent an unrealized financial result from the revaluation of available-for-sale investments.

Accounting for Buy/Sell Contracts

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

Repurchase and Resale Agreements

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

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

2. Significant Accounting Policies (continued)

Changes in Accounting Policies

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

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

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

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

2. Significant Accounting Policies (continued)

Recent Accounting Standards

In July 2010, the FASB issued ASU 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* ("ASU 2010-20") that amends Topic 310, *Receivables*, of the FASB Codification. ASU 2010-20 amends existing disclosures and requires the entity to provide additional disclosures to facilitate financial statement users' evaluation of the following: 1) the nature of credit risk inherent in the entity's portfolio of financing receivables; 2) how that risk is analyzed and assessed in arriving at the allowance for credit losses; 3) the changes and reasons for those changes in the allowance for credit losses. ASU 2010-20 also introduces a new terminology, in particular, the term *financial receivables*. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in ASU 2010-20 encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. The Company will adopt ASU 2010-20 from January 1, 2011. The Company does not expect ASU 2010-20 to have a material impact on the Company's consolidated financial position and results of operations.

3. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	September 30, 2010 (unaudited)	December 31, 2009
Cash on hand and at bank accounts in RUB	339	624
Cash on hand and at bank accounts in foreign currencies	722	748
Deposits	1,246	612
Other	29	13
Total cash and cash equivalents	2,336	1,997

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

Deposits are interest bearing and denominated primarily in RUB.

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

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Notes to Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

4. Short-Term Investments

Short-term investments comprise the following:

	September 30, 2010 (unaudited)	December 31, 2009
Short-term loans granted	1	1
Loans to related parties	11	12
Reverse repurchase agreements	–	22
Structured deposits (Note 21)	2,774	507
State and corporate bonds held-to-maturity	14	–
Promissory notes held-to-maturity	–	81
Trading securities		
Promissory notes	20	38
State and corporate bonds	173	449
Other	1	4
Available-for-sale securities	640	210
Bank deposits	1,445	1,184
Total short-term investments	5,079	2,508

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

As of September 30, 2010, trading securities include state and municipal bonds with nominal interest rates ranging from 6.9% to 18.1% and maturities ranging from December 2011 to February 2036, corporate bonds issued by large Russian corporations with maturities ranging from February 2011 to November 2016 and interest rates ranging from 6.75% to 19.0% and nominally interest-free promissory notes with weighted average effective interest rates of 5.71% and 5.66% with maturities ranging from May 2011 to September 2011.

Available-for-sale securities include state and corporate bonds and corporate promissory notes. State bonds represent federal loan bonds issued by the Ministry of Finance of the Russian Federation with maturities ranging from January 2011 to August 2016 and nominal interest rates ranging from 6.1% to 6.9% and bonds issued by CBR with weighted average effective interest rate of 3.92% and with maturities ranging from December 2010 to March 2011. The corporate bonds represent bonds issued by large Russian corporations with maturities ranging from February 2011 to November 2019 with interest rates ranging from 6.75% to 18.5%. As of September 30, 2010, the corporate bonds in the amount of US\$ 101 million were pledged under repurchase agreements (see Note 12). Corporate promissory notes represent promissory notes with nominal interest rate of 10.0% maturing in December 2010 and nominally interest-free promissory notes with weighted average effective interest rate of 3.9% with maturity in June 2015. Amortized cost bases of available-for-sale securities approximate their fair values.

The bank deposits are primarily denominated in US\$ and have interest rates ranging from 4.7% to 8.0%.

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

5. Accounts Receivable, net

Accounts receivable comprise the following:

	September 30, 2010 (unaudited)	December 31, 2009
Trade receivables	4,242	2,958
Value-added tax and excise receivable (Note 19)	1,764	2,269
Other taxes	252	211
Banking loans to customers	735	753
Acquired receivables	5	30
Other	402	328
Less: allowance for doubtful accounts	(104)	(91)
Total accounts receivable, net	7,296	6,458

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

6. Inventories

Inventories comprise the following:

	September 30, 2010 (unaudited)	December 31, 2009
Materials and supplies	519	457
Crude oil and gas	578	502
Petroleum products and petrochemicals	876	927
Total inventories	1,973	1,886

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

7. Prepayments and Other Current Assets

Prepayments and other current assets comprise the following:

	September 30, 2010 (unaudited)	December 31, 2009
Prepayments to suppliers	597	705
Prepaid customs duties	998	1,334
Insurance prepayments	14	12
Derivatives (Note 21)	58	3
Other	66	72
Total prepayments and other current assets	1,733	2,126

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

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

8. Long-Term Investments

Long-term investments comprise the following:

	September 30, 2010 (unaudited)	December 31, 2009
Equity method investments		
OJSC Tomskneft VNK	1,356	1,488
Polar Lights Company LLC	73	84
JV Rosneft-Shell Caspian Ventures Ltd.	18	16
OJSC Verkhnechonskneftegaz	268	234
CJSC Vlakra	110	110
Investments in power and utilities companies	234	272
Other	171	66
Total equity method investments	2,230	2,270
<i>Available-for-sale securities</i>		
OJSC TGK-11	22	20
Long-term promissory notes	—	4
Other securities in Company's banks	16	14
<i>Bank deposits – US\$ denominated</i>	—	833
<i>Bank deposits – RUB denominated</i>	4	—
<i>Held-to-maturity securities</i>		
Russian government bonds	50	36
Long-term loans to equity investees	725	550
<i>Cost method investments</i>	19	17
Total long-term investments	3,066	3,744

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

Long-term loans to equity investees generally have contractual maturities from 3 to 8 years and primarily include loans to OJSC Verkhnechonskneftegaz. The amount also includes a loan in the amount of US\$ 116 million provided by the Company in April 2010 to National Oil Consortium ("NOC"). The Company's share in NOC is 20%. NOC is involved in geological exploration of the block Junin-6 in Venezuela.

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

	Participation interest (percentage) as of September 30, 2010	Share in profits/(loss) of equity investees	
		Nine months ended September 30, 2010 (unaudited)	Nine months ended September 30, 2009 (unaudited)
Polar Lights Company LLC	50.00	11	15
OJSC Verkhnechonskneftegaz	25.94	34	(2)
JV Rosneft-Shell Caspian Ventures Ltd.	51.00	2	2
OJSC Kubanenergo	26.26	(40)	—
OJSC Tomskneft VNK	50.00	60	82
Other	various	—	(66)
Total equity share in profits/(loss)		67	31

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

9. Property, Plant and Equipment, net

Property, plant and equipment comprise the following:

	Cost		Accumulated depreciation		Net carrying amount	
	September 30,		September 30,		September 30,	
	2010 (unaudited)	December 31, 2009	2010 (unaudited)	December 31, 2009	2010 (unaudited)	December 31, 2009
Exploration and production	64,850	60,408	(17,566)	(14,423)	47,284	45,985
Refining, marketing and distribution	14,446	13,452	(4,380)	(3,899)	10,066	9,553
Other activities	3,160	2,809	(793)	(643)	2,367	2,166
Total property, plant and equipment	82,456	76,669	(22,739)	(18,965)	59,717	57,704

10. Other Non-Current Assets

Other non-current assets comprise the following:

	September 30, 2010 (unaudited)	December 31, 2009
Advance payment in favour of Factorias Vulcano S.A.	–	90
Advances paid for capital construction	634	553
Debt issue costs	67	75
Prepaid insurance	8	11
Long-term receivables (Note 19)	13	22
Other	119	95
Total other non-current assets	841	846

11. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities comprise the following:

	September 30, 2010 (unaudited)	December 31, 2009
Trade accounts payable	1,735	1,570
Salary and other benefits payable	542	436
Advances received	354	455
Dividends payable	729	3
Banking customer accounts	959	822
Accrued expenses	206	260
Other	123	151
Total accounts payable and accrued liabilities	4,648	3,697

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

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

12. Short-Term Loans and Long-Term Debt

Short-term loans and borrowings comprise the following:

	September 30, 2010 (unaudited)	December 31, 2009
Bank loans – RUB denominated	2	3
Customer deposits – foreign currencies	118	154
Customer deposits – RUB denominated	307	277
Promissory notes payable	94	81
Promissory notes payable – Yukos related	1,308	1,424
Borrowings – RUB denominated	202	365
Borrowings – RUB denominated – Yukos related	268	672
Borrowings – foreign currencies	1	–
Repurchase agreements	86	–
	2,386	2,976
Current portion of long-term debt	3,467	4,862
Total short-term loans and borrowings and current portion of long-term debt	5,853	7,838

Customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary banks, denominated in RUB and foreign currencies. Customer deposits denominated in RUB bear an interest rate ranging from 0.01% to 15.75% and those denominated in foreign currencies bear an interest ranging from 0.01% to 15.00%.

As of September 30, 2010, weighted average interest rate on promissory notes was 10.64%. 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 ranging from 0% to 18%. The promissory notes are recorded at amortized cost.

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

RUB denominated borrowings – Yukos related primarily include borrowings provided by Yukos Capital S.a.r.l., which bear interest of 9% and matured at the end of 2007. The Company partially repaid these liabilities following the court order (see Note 19).

In 2010, the Company received cash under the repurchase agreements and recorded these transactions as secured financing. As of September 30, 2010 the amounts owned under these repurchase agreements were RUB 2,607 million (US\$ 86 million at the CBR official exchange rate as of September 30, 2010) and were secured by the corporate bonds owned by the Company with the fair value of US\$ 101 million (see Note 4).

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

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

Long-term debt comprises the following:

	September 30, 2010 (unaudited)	December 31, 2009
Bank loans – foreign currencies	17,330	18,767
Bank loans raised for funding the acquisition of OJSC Yuganskneftegaz – US\$ denominated	440	1,415
Borrowings – US\$ denominated	2	3
Borrowings – RUB denominated	1	22
Customer deposits – foreign currencies	45	55
Customer deposits – RUB denominated	266	208
Promissory notes payable	68	60
Promissory notes payable – Yukos related	–	1
	18,152	20,531
Current portion of long-term debt	(3,467)	(4,862)
Total long-term debt	14,685	15,669

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

As of September 30, 2010, the bank loans raised for funding the acquisition of OJSC Yuganskneftegaz represent a long-term loan obtained through a government-owned bank at a rate of LIBOR plus 0.7% repayable in equal monthly installments. It is scheduled to be fully repaid in 2011. This loan is secured by the Company's receivables under a long-term export contract for the supply of crude oil (see Note 19).

Customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary banks, denominated in RUB and foreign currencies. The RUB-denominated deposits bear interest ranging from 5.0% to 15.0%. Deposits denominated in foreign currencies bear interest of 1.25% to 14.5%.

As of September 30, 2010, weighted average interest rate on promissory notes payable was 14.57%. The promissory notes are recorded at amortized cost.

During nine months of 2010, the Company wrote-off unclaimed promissory notes where statute of limitations expired and recognized gain in the amount of US\$ 166 million in the consolidated statement of income and comprehensive income within other expenses, net.

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

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

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

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

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

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

- ▶ redeem, secure, discharge in full or restructure (and comply with any restructuring plans once it is agreed upon) all OJSC Yuganskneftegaz's tax liabilities by January 3, 2008;
- ▶ pay any arbitration award relating to Moravel Investments Ltd. litigation or the Yukos Capital S.a.r.l. litigation (see Note 19) if any such arbitration award is granted by a court of the Russian Federation, within the time frame provided for such payment under Russian Law.

These conditions also apply to certain new borrowings obtained throughout 2008 and 2009. Additionally, in November and December 2007, the creditors waived certain possible violations and/or events of default under the loan agreements with respect to the loans payable to Yukos Capital S.a.r.l. by OJSC Tomskneft VNK and OJSC Samaraneftgaz, and to the condition related to OJSC Yuganskneftegaz's tax liabilities described above, effective through January 3, 2009, inclusively (see Note 19). In 2008, the Company fully restructured OJSC Yuganskneftegaz's tax liabilities (see Note 17). In November 2009, waivers with respect to the loans payable to Yukos Capital S.a.r.l. by OJSC Samaraneftgaz were granted up to the expiry dates of the respective long-term debt.

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

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

	(Unaudited)
Until December 31, 2010	1,248
2011	2,846
2012	2,135
2013	666
2014	468
2015 and after	10,789
Total long-term debt	18,152

13. Income and Other Tax Liabilities

Income and other tax liabilities comprise the following:

	September 30, 2010 (unaudited)	December 31, 2009
Mineral extraction tax	974	901
Value-added tax	318	302
Excise tax	123	159
Personal income tax	20	19
Property tax	56	57
Income tax	379	137
Other	108	52
Total income and other tax liabilities	1,978	1,627

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

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

14. Shareholders' Equity

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

15. Export Customs Duty

Export customs duty comprises the following:

	Three months ended September 30, 2010 (unaudited)	Three months ended September 30, 2009 (unaudited)	Nine months ended September 30, 2010 (unaudited)	Nine months ended September 30, 2009 (unaudited)
<i>Oil and gas sales</i>				
Export customs duty	3,229	2,905	9,392	5,962
<i>Petroleum products and petrochemicals sales</i>				
Export customs duty	883	835	2,759	1,811
Total export customs duty	4,112	3,740	12,151	7,773

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

16. Income and Other Taxes

Income tax expenses comprise the following:

	Three months ended September 30, 2010 (unaudited)	Three months ended September 30, 2009 (unaudited)	Nine months ended September 30, 2010 (unaudited)	Nine months ended September 30, 2009 (unaudited)
Current income tax expense	666	683	2,367	1,227
Deferred income tax (benefit)/expense	(34)	15	(319)	(6)
Total income tax expense	632	698	2,048	1,221

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

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

	Three months ended September 30, 2010 (unaudited)	Three months ended September 30, 2009 (unaudited)	Nine months ended September 30, 2010 (unaudited)	Nine months ended September 30, 2009 (unaudited)
Mineral extraction tax	2,259	1,930	6,579	4,424
Excise tax	290	245	824	662
Property tax	69	62	209	169
Other	104	98	378	359
Total taxes other than income tax	2,722	2,335	7,990	5,614

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

17. Other Non-Current Liabilities

Other non-current liabilities comprise the following:

	September 30, 2010 (unaudited)	December 31, 2009
Restructured tax liabilities	1,079	1,312
Long-term lease obligations	100	112
Deferred income	30	53
Liabilities to municipalities under amicable agreements	59	77
Liabilities for rights to use trademarks "Sochi 2014"	42	52
Other	–	8
Total other non-current liabilities	1,310	1,614

Under the tax restructuring plan, the restructured tax liabilities shall be repaid quarterly within five years starting from March 2008. The Company's payments excluding interest amounted to RUB 4,835 million and RUB 3,486 million (US\$ 158.6 million and US\$ 144.3 million at the CBR official exchange rate as of the payment dates) for nine months ended September 30, 2010 and 2009, respectively.

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

18. Related Party Transactions

In the normal course of business the Company enters into transactions with other enterprises which are directly or indirectly controlled by the Russian Government. Such enterprises are OJSC Gazprom, OJSC Russian Railways, OJSC Sberbank, Vnesheconombank, OJSC Bank VTB, OJSC Gazprombank, OJSC AK Transneft, certain 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 September 30, as well as related party balances as of September 30, 2010 and December 31, 2009 are provided in the tables below:

	Nine months ended September 30, 2010 (unaudited)	Nine months ended September 30, 2009 (unaudited)
<i>Revenues and Income</i>		
Oil and gas sales	165	106
Petroleum products and petrochemicals sales	322	180
Support services and other revenues	58	84
Interest income	150	36
	695	406
<i>Costs and expenses</i>		
Production and operating expenses	88	133
Pipeline tariffs and transportation costs	2,992	2,131
Other expenses	82	38
Interest expense	7	104
Banking fees	6	8
	3,175	2,414

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

18. Related Party Transactions (continued)

	Nine months ended September 30, 2010 (unaudited)	Nine months ended September 30, 2009 (unaudited)
Other operations		
Sale of short-term and long-term investments	–	505
Purchase of short-term and long-term investments	–	31
Proceeds from short-term and long-term debt	–	2
Repayment of short-term and long-term debt	976	3,100
Deposits placed	2,464	800
Deposits paid	800	97
	September 30, 2010 (unaudited)	December 31, 2009
Assets		
Cash and cash equivalents	574	755
Accounts receivable	138	40
Prepayments and other current assets	320	395
Short-term and long-term investments	4,368	2,309
	5,400	3,499
Liabilities		
Accounts payable	639	56
Short-term and long-term debt (including interest)	444	1,417
	1,083	1,473

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

	Nine months ended September 30, 2010 (unaudited)	Nine months ended September 30, 2009 (unaudited)
Revenues and Income		
Oil and gas sales	32	20
Petroleum products and petrochemicals sales	100	86
Support services and other revenues	291	254
Interest income	27	13
Dividends received	25	162
	475	535
Costs and expenses		
Production and operating expenses	262	178
Purchase of oil and petroleum products	1,112	955
Other expenses	82	75
	1,456	1,208
Other operations:		
Purchase of short-term and long-term investments	8	121
Proceeds from short-term and long-term debt	1	20
Repayment of short-term and long-term debt	170	1
Borrowings issued	159	26
Repayment of borrowings issued	4	3

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

18. Related Party Transactions (continued)

	September 30, 2010 (unaudited)	December 31, 2009
<i>Assets</i>		
Accounts receivable	202	225
Prepayments and other current assets	9	7
Short-term and long-term investments	740	569
	951	801
<i>Liabilities</i>		
Accounts payable	58	215
Short-term and long-term debt (including interest)	237	364
	295	579

19. Commitments and Contingencies

Russian Business Environment

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

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

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

Taxation

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

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

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

19. Commitments and Contingencies (continued)

Taxation (continued)

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

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

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

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

As of September 30, 2010, there is a possible risk that RUB 4,672 million (US\$ 154 million at the CBR official exchange rate as of September 30, 2010) of VAT receivable (see Note 5) will not be recovered.

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

Capital Commitments

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

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

19. Commitments and Contingencies (continued)

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

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

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

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

Social and Sponsorship Expenses

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

The Company incurred US\$ 87 million and US\$ 124 million in social and sponsorship expenses for the nine months ended September 30, 2010 and 2009, respectively. These expenses are presented within other expenses in the consolidated statements of income and comprehensive income.

Pension Plans

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

The Company also maintains a defined contribution corporate pension plan to finance non-state pensions of its employees. Under this plan, for the nine months ended September 30, 2010 and 2009, the Company made and expensed contributions amounting to US\$ 68 million and US\$ 73 million, respectively.

Guarantees and Indemnity

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

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

19. Commitments and Contingencies (continued)

Guarantees and Indemnity (continued)

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

In January 2007, RN-Yuganskneftegaz LLC signed a guarantee agreement in respect of all the obligations of RN-Energo LLC, the Company's wholly owned subsidiary, under the contract for electricity supply with OJSC Tyumenskaya Energosbytovaya Companiya for the period through December 31, 2010, in the amount of RUB 1.5 billion (US\$ 49 million at the CBR official exchange rate as of September 30, 2010). In the first quarter of 2010, this guarantee agreement was extended to December 31, 2013.

In November 2009, Rosneft signed a guarantee agreement in respect of all the obligations of RN-Tuapse Refinery LLC, the Rosneft's wholly owned subsidiary, under the contract for delivery of power generating units with Siemens Industrial Turbomachinery AB for the period through September 30, 2012, in the amount of 960 million Swedish krona (US\$ 143 million at the CBR based cross-rate as of September 30, 2010). In November 2009, Rosneft entered into a loan agreement with a western bank to finance the above delivery contract.

Litigations, Claims and Assessments

In 2006, Yukos Capital S.a.r.l., a former subsidiary of Yukos Oil Company, initiated arbitral proceedings against the Company and OJSC Samaraneftegas, the Company's subsidiary, in various courts alleging default under six ruble-denominated loans. The International Commercial Arbitration Court (the "ICAC") at the Russian Federation Chamber of Commerce and Industry issued four arbitration awards in favor of Yukos Capital S.a.r.l. in the amount of approximately RUB 12.9 billion (US\$ 424 million at the CBR official exchange rate as of September 30, 2010). An arbitration panel formed pursuant to the International Chamber of Commerce ("ICC") rules issued an award against OJSC Samaraneftegas in the amount of approximately RUB 3.6 billion (US\$ 118 million at the CBR official exchange rate as of September 30, 2010).

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

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

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

19. Commitments and Contingencies (continued)

Litigations, Claims and Assessments (continued)

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

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

On June 25, 2010, the Supreme Court of the Netherlands declared inadmissible the Company's appeal of the decision of the Amsterdam Court of Appeals enforcing the ICAC awards in the Netherlands. Although the Company does not agree with the decisions of the Dutch courts noted above, on August 11, 2010 it complied with those decisions and arranged for relevant payments to be made with respect to the claim against the Company. In addition to the amounts paid, Yukos Capital S.a.r.l. continues to seek statutory interest in the High Court of Justice in London in the amount of approximately US\$ 160 million as of the date of its Particulars of Claim.

The Company intends to defend its position vigorously in the remaining proceedings in England. A hearing on certain preliminary issues is currently scheduled for May 2011.

On July 2, 2010 Yukos Capital S.a.r.l. filed a petition with the U.S. District Court for the Southern District of New York seeking confirmation of the ICC award against OJSC Samaraneftegaz noted above. On or before August 12, 2010, Yukos Capital S.a.r.l. also commenced parallel proceedings in the Arbitrazh Court of the Samara Region seeking enforcement of the same award in the Russian Federation. As directed by the Arbitrazh Court of Samara Region, OJSC Samaraneftegaz filed a formal defense on October 4, 2010. A preliminary hearing is currently scheduled for November 3, 2010.

On October 15, 2010, OJSC Samaraneftegaz also filed a motion with the U.S. District Court for the Southern District of New York requesting the court to either dismiss Yukos Capital S.a.r.l.'s petition or, in the alternative, to stay the action pending resolution of the parallel Russian enforcement proceedings. Yukos Capital S.a.r.l.'s opposition was sent to the court on October 29, 2010, and OJSC Samaraneftegaz's reply is due on November 8, 2010.

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\$ 42 million at the CBR official exchange rate as of September 30, 2010). The respective accounts receivable in the amount of US\$ 13 million (net of allowance in the amount of US\$ 29 million) are recorded as long-term receivables in the consolidated balance sheet (see Note 10).

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

19. Commitments and Contingencies (continued)

Litigations, Claims and Assessments (continued)

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

During 2008 and 2009, the Federal Antimonopoly Service ("FAS Russia") and its regional bodies claimed that Rosneft and certain companies of the Group violated certain antimonopoly regulations in relation to petroleum products trading. The total amount of administrative penalties assessed as of the financial statements issue date is RUB 7,543 million (US\$ 248 million at the CBR official exchange rate as of September 30, 2010). The Company is appealing all claims in relevant arbitrazh courts. To the extent probable, the estimated contingent liability is accrued in these interim condensed consolidated financial statements.

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

Licence Agreements

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

Oil Supplies

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

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

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

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

20. Segment Information

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

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

Operating segments for three months ended September 30, 2010:

	Exploration and production (unaudited)	Refining, marketing and distribution (unaudited)	All other (unaudited)	Total elimination (unaudited)	Consolidated (unaudited)
Revenues from external customers	180	14,768	523	–	15,471
Intersegmental revenues	4,436	1,075	1,941	(7,452)	–
Total revenues	4,616	15,843	2,464	(7,452)	15,471
Production and operating expenses and cost of purchased oil, gas and petroleum products	522	974	282	–	1,778
Depreciation, depletion and amortization	1,128	213	58	–	1,399
Operating income	3,003	6,914	748	(7,452)	3,213
Total other expense, net					(13)
Income before tax					3,200

Operating segments for three months ended September 30, 2009:

	Exploration and production (unaudited)	Refining, marketing and distribution (unaudited)	All other (unaudited)	Total elimination (unaudited)	Consolidated (unaudited)
Revenues from external customers	241	12,610	197	–	13,048
Intersegmental revenues	2,573	504	1,305	(4,382)	–
Total revenues	2,814	13,114	1,502	(4,382)	13,048
Production and operating expenses and cost of purchased oil, gas and petroleum products	492	900	170	–	1,562
Depreciation, depletion and amortization	928	176	44	–	1,148
Operating income	1,376	4,325	1,169	(4,382)	2,488
Total other expense, net					(627)
Income before tax					1,861

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

20. Segment Information (continued)

Operating segments for nine months ended September 30, 2010:

	Exploration and production (unaudited)	Refining, marketing and distribution (unaudited)	All other (unaudited)	Total elimination (unaudited)	Consolidated (unaudited)
Revenues from external customers	777	43,429	1,457	–	45,663
Intersegmental revenues	12,706	3,128	5,654	(21,488)	–
Total revenues	13,483	46,557	7,111	(21,488)	45,663
Production and operating expenses and cost of purchased oil, gas and petroleum products	1,605	2,701	785	–	5,091
Depreciation, depletion and amortization	3,234	616	169	–	4,019
Operating income	8,826	20,142	2,247	(21,488)	9,727
Total other expense, net					(63)
Income before tax					9,664

Operating segments for nine months ended September 30, 2009:

	Exploration and production (unaudited)	Refining, marketing and distribution (unaudited)	All other (unaudited)	Total elimination (unaudited)	Consolidated (unaudited)
Revenues from external customers	695	30,536	1,028	–	32,259
Intersegmental revenues	6,358	2,109	3,729	(12,196)	–
Total revenues	7,053	32,645	4,757	(12,196)	32,259
Production and operating expenses and cost of purchased oil, gas and petroleum products	1,398	2,305	490	–	4,193
Depreciation, depletion and amortization	2,496	521	123	–	3,140
Operating income	3,108	12,332	3,103	(12,196)	6,347
Total other expense, net					(285)
Income before tax					6,062

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

20. Segment Information (continued)

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

	Three months ended September 30, 2010 (unaudited)	Three months ended September 30, 2009 (unaudited)	Nine months ended September 30, 2010 (unaudited)	Nine months ended September 30, 2009 (unaudited)
Oil and gas sales				
Export sales of crude oil – Europe and other directions	5,840	5,133	16,569	12,286
Export sales of crude oil – Asia	2,054	1,245	6,874	3,202
Export sales of crude oil – CIS	249	353	1,004	930
Domestic sales of crude oil	55	8	191	42
Domestic sales of gas	91	83	302	246
Total oil and gas sales	8,289	6,822	24,940	16,706
Petroleum products and petrochemicals sales				
Export sales of petroleum products – Europe and other directions	1,988	1,798	6,162	4,712
Export sales of petroleum products – Asia	1,516	1,464	4,483	3,511
Export sales of petroleum products – CIS	56	31	130	101
Domestic sales of petroleum products	3,101	2,546	8,432	6,184
Sales of petrochemicals	97	59	315	143
Total petroleum products and petrochemicals sales	6,758	5,898	19,522	14,651

21. Fair Value of Financial Instruments and Risk Management

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

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

- Level 1*– Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to assess at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2*– Observable inputs other than Level 1 prices such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or model-derived valuations or other inputs that are observable or can be corroborated by observable market data.
- Level 3*– Unobservable inputs for the asset or liability. These inputs reflect the Company's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

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Notes to Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

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

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

	Fair value measurement as of September 30, 2010			
	Level 1	Level 2	Level 3	Total
Assets:				
Current assets				
Trading securities	144	50	–	194
Available-for-sale securities	475	168	–	643
Derivatives	–	58	–	58
Non-current assets				
Available-for-sale securities	22	16	–	38
Total assets measured at fair value	641	292	–	933
Current liabilities:				
Derivatives	–	(237)	–	(237)
Total liabilities measured at fair value	–	(237)	–	(237)

The market for a number of financial assets is not active. In accordance with requirements of FASB ASC 820-10-35-47 observable inputs of Level 2 were used to determine fair value of such financial assets.

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

The fair value of cash and cash equivalents, held-to-maturity securities, accounts receivable, accounts payable, and other current assets approximates their carrying value recognized in these financial statements. The fair value of long-term debt differs from the amounts recognized in the consolidated financial statements. The estimated fair value of long-term debt discounted using the estimated market interest rate for similar financial liabilities amounted to US\$15,489 million and US\$ 17,916 million as of September 30, 2010 and December 31, 2009, respectively. These amounts include all future cash outflows related to the repayment of long-term loans, including their current portion and interest expenses.

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

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

In December 2007, the Company entered into a 5-year interest rate swap contract with a notional amount of US\$ 3 billion. Under the terms of the contract, a floating LIBOR rate may be converted into a certain fixed rate. The other party has a call option to terminate the deal. The fair value of the interest swap contract was recorded in the consolidated balance sheets as of September 30, 2010 and December 31, 2009 as other current liabilities in the amount of US\$ 185.7 million and US\$ 151.5 million, respectively. The change in fair value was recorded in the consolidated statement of income and comprehensive income for nine months ended September 30, 2010 as a component of interest expense in the amount of US\$ 34.2 million.

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

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

In December 2008, the Company entered into a 5-year interest rate swap contract with a notional amount of US\$ 500 million. Under the terms of the contract, a floating LIBOR rate may be converted into a certain fixed rate. The other party will have a call option to terminate the deal commencing two years after the contract date. The fair value of the interest swap contract was recorded in the consolidated balance sheets as of September 30, 2010 as other current liabilities in the amount of US\$ 50.8 million, and as of December 31, 2009 as other current asset in the amount of US\$ 2.7 million (see Note 7). The change in fair value was recorded in the consolidated statement of income and comprehensive income for nine months ended September 30, 2010 as a component of interest expense in the amount of US\$ 53.5 million.

In October 2009, the Company entered into a fixed interest rate structured deposit agreement with a nominal amount of US\$ 500 million (see Note 4) which expires in October 2010. If on the deposit repayment date the spot RUB/US\$ exchange rate is higher than agreed conversion rate, the other party has a call option to repay amount in RUB which shall be equal to the nominal deposit amount multiplied by the respective conversion rate. Embedded call option was bifurcated from the host contract and recorded at fair value in the consolidated balance sheets as of September 30, 2010 and December 31, 2009 as other current asset in the amount of US\$ 2.0 million and US\$ 0 million (see Note 7), respectively. The change in fair value was recorded in the consolidated statement of income and comprehensive income for nine months ended September 30, 2010 as a component of foreign exchange gain in the amount of US\$ 2.0 million.

In May 2010, the Company entered into fixed interest rate structured deposit agreements with two banks for nominal amounts of US\$ 500 million and US\$ 495 million (see Note 4) which similarly expire in May 2011. If on the deposit repayment date the spot RUB/US\$ exchange rate is higher than agreed conversion rate, the other party has a call option to repay amount in RUB which shall be equal to the nominal deposit amount multiplied by the respective conversion rate. Embedded call options were bifurcated from the host contracts and recorded at fair value in the consolidated balance sheet as of September 30, 2010 as other current asset in the amount of US\$ 13.7 million (see Note 7). The resulting change in fair values was recorded in the consolidated statement of income and comprehensive income for nine months ended September 30, 2010 as a component of foreign exchange gain in the amount of US\$ 13.7 million.

In June 2010, the Company entered into a fixed interest rate structured deposit agreement with a nominal amount of US\$ 200 million (see Note 4) which expires in June 2011. If on the deposit repayment date the spot RUB/US\$ exchange rate is higher than agreed conversion rate, the other party has a call option to repay amount in RUB which shall be equal to the nominal deposit amount multiplied by the respective conversion rate. Embedded call option was bifurcated from the host contract and recorded at fair value in the consolidated balance sheet as of September 30, 2010 as other current asset in the amount of US\$ 5.8 million (see Note 7). The change in fair value was recorded in the consolidated statement of income and comprehensive income for nine months ended September 30, 2010 as a component of foreign exchange gain in the amount of US\$ 5.8 million.

In July 2010, the Company entered into fixed interest rate structured deposit agreements with two banks for nominal amounts of US\$ 250 million and US\$ 500 million (see Note 4) which expire in July 2011. If on the deposit repayment date the spot RUB/US\$ exchange rate is higher than agreed conversion rate, the other party has a call option to repay amount in RUB which shall be equal to the nominal deposit amount multiplied by the respective conversion rate. Embedded call options were bifurcated from the host contracts and recorded at fair value in the consolidated balance sheet as of September 30, 2010 as other current asset in the amount of US\$ 18.2 million (see Note 7). The resulting change in fair values was recorded in the consolidated statement of income and comprehensive income for nine months ended September 30, 2010 as a component of foreign exchange gain in the amount of US\$ 18.2 million.

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

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

In September 2010, the Company entered into fixed interest rate structured deposit agreements with two banks for nominal amounts of US\$ 100 million and US\$ 150 million (see Note 4) which expire in September 2011. If on the deposit repayment date the spot RUB/US\$ exchange rate is higher than agreed conversion rate, the other party has a call option to repay amount in RUB which shall be equal to the nominal deposit amount multiplied by the respective conversion rate. Embedded call options were bifurcated from the host contracts and recorded at fair value in the consolidated balance sheet as of September 30, 2010 as other current asset in the amount of US\$ 7.7 million (see Note 7). The resulting change in fair values was recorded in the consolidated statement of income and comprehensive income for nine months ended September 30, 2010 as a component of foreign exchange gain in the amount of US\$ 7.7 million.

In February and May 2010, the Company entered into forward foreign currency contracts to economically hedge its foreign currency risk of forecasted operating expense. These financial exposures are managed as an integral part of the Company's risk management program, which seeks to reduce the potentially adverse effect that the volatility of the exchange rate markets may have on operating results. As of September 30, 2010, the maximum term over which the Company has economically hedged exposures to the variability of the currency exchange rates under its derivative instruments is 3 months. The fair values of forward contracts were recorded in the consolidated balance sheet as of September 30, 2010 as other current asset in the amount of US\$ 10.4 million (see Note 7), and the resulting change in fair value was recorded in the consolidated statement of income and comprehensive income for nine months ended September 30, 2010 as a component of foreign exchange gain in the amount of US\$ 10.4 million.

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

22. Subsequent Events

In October 2010, the Company concluded a share purchase agreement to acquire 50% stake in Ruhr Oel GmbH and related joint venture agreement seller's rights for US\$ 1.6 billion. Final purchase consideration is subject to adjustment as of the closing date of the transaction. Acquisition is expected to be finalized in the first half of 2011. The Company has provided a guarantee in the amount to US\$ 200 million to the seller for the compensation of losses in case of unilateral unsubstantiated termination of this transaction. The Company will account for its investment in Ruhr Oel GmbH using the equity method.