OJSC Rosneft Oil Company

Consolidated Financial Statements

Years ended December 31, 2004 and 2003
With Report of Independent Auditors

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Consolidated Financial Statements

Years ended December 31, 2004 and 2003

Contents

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Report of Independent Auditors

To the Shareholder and Board of Directors
of OJSC Rosneft Oil Company

We have audited the accompanying consolidated balance sheets of OJSC Rosneft Oil Company, a Russian open joint stock company ("OJSC"), and subsidiaries (collectively the "Company") as of December 31, 2004 and 2003 and the related consolidated statements of income, changes in shareholder's equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 17 to the consolidated financial statements, as of December 31, 2004 the Company was not in compliance with certain debt covenants and as a result the related debt has become callable by the respective creditors. The Company has not yet obtained satisfactory waiver letters from the respective creditors. However, the Company continues to classify the related debt in the amount of US$ 1,661 million as non-current, which is not in compliance with Statement of Financial Accounting Standard No. 78 *"Classification of Obligations That Are Callable by the Creditor"*, which requires classification of such debt as current.

As discussed in Note 4 to the consolidated financial statements, the value of property, plant and equipment pertaining to non-controlling shareholders in the accounting for minority interests resulting from acquisitions of OJSC Yuganskneftegaz has been recorded at appraised values rather than at historical cost as required by accounting principles generally accepted in the Unites States of America.

In our opinion, except for the effects of the matters described in the proceeding paragraphs, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the consolidated financial statements, effective January 1, 2003, the Company adopted Statement of Financial Accounting Standard No. 143 *"Accounting for Asset Retirement Obligations."*

Ernst & Young LLC

June 24, 2005

OJSC Rosneft Oil Company

Consolidated Balance Sheets

as of December 31, 2004 and 2003

(Currency – thousands of US dollars)

	Notes	2004	2003
ASSETS			
Current assets:			
Cash and cash equivalents	**5**	**$ 1,058,124**	$ 235,212
Short-term investments	**6**	**161,013**	290,613
Accounts receivable, net of allowance for doubtful accounts of US$ 74,797 and US$ 61,834, respectively	**7**	**4,970,468**	887,312
Inventories	**8**	**516,866**	336,571
Deferred tax assets	**23**	**27,629**	23,494
Prepaid expenses	**9**	**125,781**	67,889
Total current assets		**6,859,881**	1,841,091
Non-current assets:			
Long-term investments	**10**	**374,071**	288,629
Oil and gas properties, net	**11, 14**	**16,480,621**	3,232,261
Other property, plant and equipment, net	**12, 14**	**1,759,100**	1,043,539
Construction-in-progress	**13**	**480,733**	368,222
Deferred tax assets	**23**	**5,494**	19,826
Other non-current assets, net of allowance of US$ 8,108 and US$ 667, respectively	**15**	**27,539**	3,838
Total non-current assets		**19,127,558**	4,956,315
Total assets		**$ 25,987,439**	$ 6,797,406
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	**16**	**$ 1,429,496**	$ 698,909
Short-term loans and current portion of long-term debt	**17**	**4,666,940**	587,830
Accrued income and other taxes	**19**	**1,560,098**	130,771
Deferred tax liability	**23**	**–**	3,579
Other current liabilities		**41,892**	5,232
Total current liabilities		**7,698,426**	1,426,321
Asset retirement obligations	**20**	**554,992**	126,488
Long-term debt	**17**	**9,009,828**	1,822,047
Deferred tax liability	**23**	**2,853,618**	70,958
Minority interest	**21**	**2,535,433**	789,106
Total liabilities		**22,652,297**	4,234,920
Commitments and contingencies	**24**	**–**	–
Shareholder's equity:			
Preferred stock (shares authorized and outstanding: nil in 2004 and 1,446,047 in 2003)	**18**	**–**	247
Common stock (shares authorized and outstanding: 90,921,740 in 2004 and 89,475,693 in 2003)	**18**	**19,701**	19,454
Additional paid-in capital	**18**	**19,157**	19,157
Accumulated other comprehensive income		**–**	12,930
Retained earnings		**3,296,284**	2,510,698
Total shareholder's equity		**3,335,142**	2,562,486
Total liabilities and shareholder's equity		**$ 25,987,439**	$ 6,797,406

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

OJSC Rosneft Oil Company

Consolidated Statements of Income and Comprehensive Income

for the years ended December 31, 2004 and 2003

(Currency – thousands of US dollars)

	Notes	2004	2003
Revenues			
Oil and gas sales	**22**	**$ 2,735,006**	$ 1,714,315
Refined products and processing fees	**22**	**2,233,604**	1,731,848
Support services and other sales	**22**	**306,785**	194,869
Total		**5,275,395**	3,641,032
Operating and other expenses			
Cost of extraction of oil and gas sold		**330,829**	229,885
Cost of production and purchased refined products, and processing fees		**821,635**	566,974
Cost of support services and other sales		**126,194**	101,168
Selling and administrative expenses		**236,944**	238,852
Pipeline tariffs and transportation costs		**435,401**	391,962
Exploration expenses		**50,941**	18,470
Depreciation, depletion and amortization		**307,074**	302,061
Accretion expense		**8,490**	12,379
Taxes other than income tax		**957,409**	625,102
Excise tax and export customs duties	**22**	**760,254**	435,595
Total operating expenses		**4,035,171**	2,922,448
Operating income		**1,240,224**	718,584
Other income/(expense)			
Interest income		**64,922**	73,021
Interest expense		**(158,647)**	(110,056)
Gain/(loss) on disposal of property, plant and equipment		**120,733**	(21,468)
(Loss)/gain on sale of investments		**(30,314)**	4,883
Equity share in affiliates' profits/(losses)		**52,409**	(293)
Dividends and income from joint ventures		**46,026**	16,355
Other expenses, net	**24**	**(232,212)**	(155,862)
Foreign exchange gain		**97,241**	64,258
Total other expenses		**(39,842)**	(129,162)
Income before income tax		**1,200,382**	589,422
Income tax expense	**23**	**(297,606)**	(200,985)
Income before minority interest		**902,776**	388,437
Minority interest in subsidiaries' earnings		**(65,515)**	(51,911)
Net income before cumulative effect from change in accounting principle		**837,261**	336,526
Cumulative effect from change in accounting principle, net of income tax		–	49,616
Net income		**837,261**	386,142
Other comprehensive income	**2**	–	12,930
Comprehensive income		**$ 837,261**	$ 399,072

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

OJSC Rosneft Oil Company

Consolidated Statements of Changes in Shareholder's Equity

for the years ended December 31, 2004 and 2003

(Currency – thousands of US dollars)

	Common stock	**Preferred stock**	**Additional paid-in capital**	**Accumulated other comprehensive income**	**Retained earnings**	**Shareholder's equity**
Balance at December 31, 2002	$ 19,430	$ 247	$ –	$ –	$ 2,173,465	$ 2,193,142
Share issue and premium	24	–	19,157	–	–	19,181
Other comprehensive income	–	–	–	12,930	–	12,930
Net income for the year	–	–	–	–	386,142	386,142
Dividends declared on common stock	–	–	–	–	(48,909)	(48,909)
Balance at December 31, 2003	$ 19,454	$ 247	$ 19,157	$ 12,930	$ 2,510,698	$ 2,562,486
Other comprehensive income	**–**	**–**	**–**	**(12,930)**	**–**	**(12,930)**
Net income for the year	**–**	**–**	**–**	**–**	**837,261**	**837,261**
Conversion of preferred stock into common stock (Note 18)	**247**	**(247)**	**–**	**–**	**–**	**–**
Dividends declared on common stock	**–**	**–**	**–**	**–**	**(51,675)**	**(51,675)**
Balance at December 31, 2004	**$ 19,701**	**$ –**	**$ 19,157**	**$ –**	**$ 3,296,284**	**$ 3,335,142**

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

OJSC Rosneft Oil Company

Consolidated Statements of Cash Flows

for the years ended December 31, 2004 and 2003

(Currency – thousands of US dollars)

	2004	2003
Operating activities		
Net income	**$ 837,261**	$ 386,142
Reconciliation of net income to net cash provided by operating activities:		
Non-cash activities	**33,334**	(33,327)
Effect of foreign exchange on cash and cash equivalents	**(24,349)**	(15,955)
Cumulative effect from change in accounting principle net of income tax	**–**	(49,616)
Depreciation, depletion and amortization	**307,074**	302,061
Exploration expenses	**50,941**	18,470
(Gain)/loss on disposal of property, plant and equipment	**(120,733)**	21,468
Deferred income tax	**(11,008)**	(43,291)
Accretion expense	**8,490**	12,379
Equity share in affiliates' (profits)/losses	**(52,409)**	293
Increase in allowance for doubtful accounts	**20,404**	22,985
Minority interests in subsidiaries' earnings	**65,515**	51,911
Changes in operating assets and liabilities net of acquisitions:		
Increase in accounts receivable	**(195,762)**	(131,672)
Increase in inventories	**(86,489)**	(61,462)
Increase in prepaid expenses	**(56,968)**	(16,481)
Increase in other non-current assets	**(27,261)**	(2,715)
(Decrease)/increase in accounts payable and accrued liabilities	**(47,831)**	216,453
Increase in accrued income and other taxes	**34,592**	53,100
Increase in other current liabilities	**30,354**	5,232
Net cash provided by operating activities	**765,155**	735,975
Investing activities		
Capital and exploration expenditures	**(854,884)**	(764,979)
Proceeds from sale of property, plant and equipment	**206,170**	5,719
Acquisitions of short-term investments	**(88,206)**	(613,633)
Proceeds from sale of short-term investments	**251,273**	440,016
Acquisitions of entities and additional shares in subsidiaries	**(270,462)**	(729,448)
Acquisition of OJSC Yuganskneftegaz	**(9,397,982)**	–
Proceeds from sale of long-term investments	**249,744**	464,682
Purchase of long-term investments	**(282,561)**	(324,447)
Net cash used in investing activities	**$ (10,186,908)**	$ (1,522,090)

OJSC Rosneft Oil Company

Consolidated Statements of Cash Flows (continued)

	2004	2003
Financing activities		
Proceeds from short-term debt	**$ 6,206,015**	$ 1,485,342
Repayment of short-term debt	**(2,511,576)**	(1,525,710)
Proceeds from short-term debt expected to be refinanced (Note 17)	**6,465,000**	–
Proceeds from long-term debt	**2,188,083**	1,154,991
Repayment of long-term debt	**(2,065,727)**	(319,600)
Preferred dividends of subsidiaries paid	**(9,804)**	(18,973)
Common dividends paid	**(51,675)**	(48,909)
Net cash provided by financing activities	**10,220,316**	727,141
Increase/(decrease)in cash and cash equivalents	**798,563**	(58,974)
Cash and cash equivalents at beginning of year	**235,212**	278,231
Effect of foreign exchange on cash and cash equivalents	**24,349**	15,955
Cash and cash equivalents at end of year	**$ 1,058,124**	$ 235,212
Supplemental disclosures of cash flow information		
Cash paid for interest (net of amount capitalized)	**$ 144,027**	$ 91,919
Cash paid for income taxes	**308,723**	198,719
Supplemental disclosure of non-cash activities		
Income taxes off-sets	**$ 5,907**	$ 48,750
Non-cash capital expenditures	**(49,566)**	(60,510)
Non-cash disposal of assets	**19,228**	27,183

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

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

1. General

Nature of Operations

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

Rosneft State Enterprise was incorporated as an open joint stock company on December 7, 1995. All assets and liabilities previously managed by Rosneft State Enterprise were transferred to the Company at their book value effective on that date together with the Government of the Russian Federation (the "State") ownership in other privatized oil and gas companies. The transfer of assets and liabilities was made in accordance with Resolution No. 971, "On the transformation of Rosneft into an open joint stock company "NK Rosneft", dated September 29, 1995. Such transfers represent a reorganization of assets under the common control of the State and, accordingly, are accounted for at their book value. As of December 31, 2004, the State through the Ministry of Property maintains a 100% interest in Rosneft.

Under Russian legislation, natural resources, including oil, gas, precious metals and minerals and other commercial minerals situated within the territory of the Russian Federation are the property of the State until they are extracted. The Law of the Russian Federation No. 2395-1, *"On Subsurface Resources",* regulates relations arising in connection with the geological study, use and protection of subsurface resources within the territory of the Russian Federation. Pursuant to the Law, subsurface resources may be developed only on the basis of a license. The license is issued by the regional governmental body and contains information on the site to be developed, the period of activity, financial and other conditions. The Company holds several licenses issued by Regional authorities for geological study and development of oil and gas blocks and fields in areas where its subsidiaries are located.

In addition, the Company has been participating in a Production Sharing Agreement (PSA). As a result, the Company has rights to develop a certain license block according to the existing PSA and may receive similar rights in the future.

Due to the limited capacity of Transneft pipeline system, the Pipeline Commission of the Russian Government sets export quotas for each oil company based on the legislation on equal access to the oil pipeline system. In addition, the Company exports certain quantity of crude oil bypassing the Transneft system thus enabling it to increase its export capacities. In 2004 and 2003 the Company's export sales have approximated 57% and 51% of production, respectively. The remaining production was processed at the Company's refineries and other Russian refineries for further sales on domestic and international markets. Generally, export sales result in a higher net realized price than Russian domestic sales after considering related transportation and export duties and other charges.

1. General (continued)

Nature of Operations (continued)

In the course of its usual activity, the Company regularly enters into transactions with other enterprises which are directly or indirectly controlled by the Russian Government. Such enterprises are business units of RAO UES, OJSC Gazprom, OJSC Russian Railways, OJSC Sberbank, OJSC Vnesheconombank, and federal agencies including tax authorities.

Principal subsidiary companies included in the consolidated financial statements and respective ownership interests of Rosneft as of December 31, 2004 are as follows:

Name	Nature of Business	Preferred and Common Shares	Voting Shares
		%	%
Exploration and production			
OJSC Yuganskneftegaz	Oil and gas development and production	76.79	100.00
OJSC Rosneft-Purneftegaz	Oil and gas development and production	83.09	90.82
OJSC Rosneft-Sakhalinmorneftegaz	Oil and gas development and production	64.37	84.30
OJSC Rosneft-Krasnodarneftegaz	Oil and gas development and production	50.78	58.97
OJSC Rosneft-Stavropolneftegaz	Oil and gas development and production	71.96	87.75
OJSC Rosneft-Dagneft	Oil and gas development and production	68.70	91.60
OJSC Grozneftegaz	Oil and gas development and production	51.00	51.00
OJSC Rosneft-Sakhalin	Oil and gas exploration and development	55.00	55.00
OJSC Severnaya Neft (Northern Oil)	Oil and gas development and production	100.00	100.00
OJSC Selkupneftegaz	Oil and gas development and production	66.00	66.00
Caspoil LLC	Oil and gas development and production	75.10	75.10
Rosneft International Ltd. LLC	Holding company for investments in oil and gas production entities	100.00	100.00
CJSC Vostokshelf	Field survey and exploration	100.00	100.00
RN-Kazakhstan LLC	Field survey and exploration	99.00	99.00
OJSC Dagneftegaz	Oil and gas development and production	81.22	94.96
RN-Kaiganneftegaz LLC	Field survey and exploration	99.99	99.99
CJSC Vostok-Smidt Neftegaz	Field survey and exploration	100.00	100.00
CJSC Zapad-Smidt Neftegaz	Field survey and exploration	100.00	100.00
Refineries			
OJSC Rosneft-Tuapse Refinery	Petroleum refining	81.51	92.08
OJSC Rosneft-Komsomolsky Refinery	Petroleum refining	77.31	83.31
OJSC Rosneft-MZ Nefteproduct	Petroleum refining	65.42	87.23
Petroleum marketing and distribution			
OJSC Rosneft-ARTAG	Marketing and distribution	38.00	50.67
OJSC Rosneft-Altainefteproduct	Marketing and distribution	64.18	78.59
OJSC Rosneft-Arkhangelsknefteproduct	Marketing and distribution	75.42	84.65
OJSC Rosneft-Kabardino-Balkarskaya Toplivnaya Company	Marketing and distribution	88.66	92.91
OJSC Rosneft-Kubannefteproduct	Marketing and distribution	89.50	96.61
OJSC Rosneft-Karachaevo-Cherkessknefteproduct	Marketing and distribution	85.99	87.46
OJSC Rosneft-Kurgannefteproduct	Marketing and distribution	83.32	90.33
OJSC Rosneft-Murmansknefteproduct	Marketing and distribution	45.38	60.51
OJSC Rosneft-Nakhodkanefteproduct	Marketing and distribution	40.62	51.53
OJSC Rosneft-Smolensknefteproduct	Marketing and distribution	66.67	86.97

1. General (continued)

Nature of Operations (continued)

Name	Nature of Business	Preferred and Common Shares	Voting Shares
		%	%
OJSC Rosneft-Tuapsenefteproduct	Marketing and distribution	38.00	50.67
OJSC Rosneft-Yamalnefteproduct	Marketing and distribution	49.52	66.03
RN-Vostoknefteproduct LLC	Marketing and distribution	100.00	100.00
OJSC Rosneft-Stavropolye	Marketing and distribution	97.06	97.06
Other			
RN-Teleport LLC	Information technology	99.00	99.00
OJSC All-Russian Bank for Reconstruction and Development of Russian Regions (VBRR)	Banking	50.98	50.98
RN-Perspektiva LLC	Corporate planning	99.00	99.00
Rosneftetrans LLC	Transportation services	95.00	95.00
CJSC RN-Astra	Investment activities	99.00	99.00
CJSC Sakhalinskie Proekty	Corporate planning	100.00	100.00
CJSC Vostochny Neftenalivnoy Terminal	Services	100.00	100.00
Vostochnaya Stroitelnaya Company LLC	Construction services	51.23	51.23

All of the above subsidiaries, except for Rosneft International Ltd., are incorporated in the Russian Federation. Rosneft International Ltd. is registered in Ireland.

Russian Business Environment

The Russian economy was deemed to be of market status with greater investment potential beginning from 2002. During the first half of 2004 certain main rating agencies and organizations have reported increases in the credit rating of the Russian Federation, which is generally regarded as improving the attitude of investors to the Russian Federation. Increased credit rating cardinally changes the attitude of investors to the Russian Federation. Further, in the first half of 2004 the Russian Federation signed an agreement with the European Union on joining the World Trade Organization (WTO). It is generally understood that the Government activities are intended to stabilize and successfully develop the political and economic situation in Russia.

While there is a general view of an improving environment, the environment does still have certain traits of a market in transition, for example inflation is not low enough, lack of liquidity in the capital markets and the existence of currency controls, which cause the national currency to be illiquid outside of Russia. In addition laws and regulations, including interpretations, enforcement and judicial processes, continue to evolve in Russia. Other laws and regulations and certain other restrictions producing significant effect on the Company's industry include the following issues: rights of use of subsurface resources, site remediation, transportation and export, corporate governance, taxation, etc.

1. General (continued)

Currency Exchange and Control

Foreign currencies, in particular US dollar and Euro, play a significant role in the underlying economics of many business transactions in Russia. For the oil and gas sector in particular, substantial export arrangements as well as investing and financing activities are conducted in hard currencies such as US dollar.

The Russian legislation has established currency regulation and control rules for stimulation of ruble use in the business operations. Such rules allow the Central Bank of Russia (the "CBR") to place restrictions on the conversion of rubles into hard currencies and retain the CBR's powers to independently impose the of mandatory conversion of hard currency sales to rubles in the amount of up to 30% of export revenues. During the second half 2004 the quota of mandatory conversion of hard currency sales to rubles was decreased to 10%.

While in recent years conversion requirements have been reduced, such matters continue to be a substantial consideration for many companies in managing currency risks.

The Company conducts a substantial portion of its commercial activities using US dollar denominated contracts. In addition, substantial financing and investing activities, obligations and commitments are also based on the US dollar. However, many operating and investing expenditures, as well as taxation and statutory actions are conducted in rubles. As a result of the US dollar drop against the ruble, the Company is exposed to the corresponding currency risk, which is considerably mitigated, however, by the growth of oil price. The Company attempts to manage these risks through increasing certain levels of crude and product exports.

Basis of preparation of financial statements

In connection to excess of current liabilities over current assets, which occurred due to acquisition of OJSC Yuganskneftegaz (see Note 4), the Company analyzed its ability to continue in operation in the foreseeable future. The present set of financial statements is prepared based on the assumption, that the Company is able to continue its business in the foreseeable future, which implies realization of assets and settlement of liabilities in the normal course of business. The Company anticipates to finance its working capital deficit by cash generated from operations and obtaining debt financing.

2. Summary of Significant Accounting Policies

Form and Content of the Consolidated Financial Statements

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

2. Summary of Significant Accounting Policies (continued)

Form and Content of the Consolidated Financial Statements (continued)

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

Certain amounts in the 2003 consolidated balance sheets and statements of income, as previously reported, have been reclassified to conform to the presentation in accordance with the format approved for the consolidated balance sheets and statements of income for 2004.

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 revenues and expenses during the reporting periods. Certain significant estimates and assumptions for the Company include: estimation of economically recoverable oil and gas reserves; rights to and recoverability and lives of long-term assets and investments; provisions for uncollectible accounts receivable; asset retirement obligations; legal and tax contingencies; environmental remediation obligations; recognition and disclosure of guarantees and other commitments. Management believes it has a reasonable and appropriate basis for its judgment pertaining to its estimates and assumptions. However, actual results could differ from those estimates.

Principles of Consolidation

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

The Company reviewed the application of FIN 46R *"Consolidation of Variable-Interest Entities (VIEs)"*, for potential consolidation of companies. FIN 46R shall be applied in the current reporting period for VIEs created after December 31, 2003, and in the reporting period beginning after December 15, 2004, for all other VIEs. The Company did not identify any VIEs required to be consolidated as of December 31, 2004.

2. Summary of Significant Accounting Policies (continued)

Minority Interest in Subsidiaries

Minority interest in the consolidated balance sheets reflects minority owners' percentage of share capital in subsidiaries. The minority interest is calculated based on the shareholders' equity of each subsidiary as determined under US GAAP. The actual ruble denominated balance attributable to minority interests may differ from this amount. Preferred shareholders of the Company's subsidiaries are entitled to a dividend of 10 % of statutory net profit, as generally determined under the Charters of the Company's subsidiaries.

Foreign Currency Translation

On November 25, 2002, the AICPA International Practices Task Force concluded that Russia would no longer be considered a highly inflationary economy for the purposes of Statement of Financial Accounting Standard (SFAS) 52 *"Foreign Currency Translation"* effective January 1, 2003. Accordingly, the Company re-assessed its functional currency and determined that US dollar will continue to be used as the functional currency for the purposes of US GAAP financial statements effective January 1, 2003. Since the US Dollar was the functional currency in prior years, the change from the hyperinflation status did not have a significant effect on comparability.

Since the Company's books of record are maintained in Russian roubles ("RUR"), it must remeasure those balances under SFAS 52. Monetary assets and liabilities have been translated into US dollars at the exchange rate at balance sheet date. Non-monetary assets and liabilities have been translated at historical rates. Data on revenues, expenses, and cash flows are translated into US dollars at historical exchange rates prevailing on the transactions dates. Gains and losses resulting from the remeasurement into US dollars are included in the consolidated statements of income.

As of December 31, 2004 and 2003, the official rates of exchange were 27.75 rubles for one US dollar and 29.45 rubles for US dollar, respectively. As of June 24, 2005 the official rate of exchange was 28.62 rubles for one US dollar.

Cash and Cash Equivalents

Cash represents cash on hand and in the Company's bank accounts and interest bearing deposits, which can be effectively withdrawn at any time without prior notice or penalties reducing principal amount of deposit.

Accounts Receivable

Accounts receivable are shown at their net realizable value, which approximates fair value, and are presented net of allowance for doubtful accounts. Management of the Company calculates a specific allowance for significant doubtful accounts and estimates the allowance for others based on aging categories and historical write-offs.

Long-term accounts receivable restructured under the amicable agreement are recognized net of the loan loss allowance calculated based on SFAS 114 *"Accounting by Creditors for Impairment of a Loan"*. Under this standard, the loan loss allowance related to such accounts receivable is calculated based on discounted cash flow, with the interest rate reflecting the cost of raising funds by the debtor taken as a discount rate.

2. Summary of Significant Accounting Policies (continued)

Inventories

Inventories, consisting primarily of crude oil, petroleum products and materials and supplies, are stated at the lower of weighted average cost of acquisition or net sales cost.

Financial Investments

All debt and equity securities of the Company are classified into one of three categories: trading securities; securities available-for-sale; securities held to maturity.

Trading securities are mainly acquired for sale in the nearest future. Securities held to maturity represent financial instruments which the Company wishes and is able to hold to maturity. All other securities, which do not fall into these two categories are considered securities available-for-sale.

Trading securities and securities available-for-sale are carried at fair (market) value. Securities held to maturity are carried at cost adjusted for depreciation or increase in premiums or discounts. Unrealized gains or losses on trading securities are included in the consolidated income statements. Unrealized gains and losses on securities available-for-sale are recorded as a separate element of total comprehensive income less related taxes until the time of sale.

Realized gains and losses from the sale of securities available-for-sale are reported separately for each type of securities. Dividends and interest income are recognized in the consolidated income statements on an accrual basis.

Sale and Repurchase Agreements and Lending of Securities

Sale and repurchase agreements are treated as secured financing transactions. Securities realized under these contracts are included in trading securities. The corresponding liability is presented within short-term debt. The difference between the sale and repurchase price is treated as interest and recognized over the life of the repurchase agreements using the effective interest method.

Oil and Gas Properties

The Company follows the successful efforts method of accounting for its oil and gas exploration and production activities. Under this method, exploration costs, including geological and geophysical costs and dry hole costs are charged to expenses as incurred. Costs to acquire proved and unproved properties are capitalized and amortized as discussed below. Costs of drilling exploratory wells, including stratigraphic test wells and seismic costs, are capitalized pending determination whether such properties contain or wells have found proved reserves which justify commercial development. If such reserves are not found, the drilling costs are charged to exploration expenses.

2. Summary of Significant Accounting Policies (continued)

Oil and Gas Properties (continued)

Exploratory wells in areas not requiring major capital expenditures, are evaluated for economic viability within one year of well completion. This time period is used in order to follow the periodic reporting of proved reserves. Cost of exploratory wells, with confirmed oil or gas reserves in the field, which requires additional significant capital expenditures, in cases, when in order to make decision for additional significant capital expenditures it is required to continue the exploratory drilling, the cost of these wells remains capitalized until the additional exploratory drilling takes place or drilling is considered to be probable. In such case it is considered that exploration is completed successfully, if certain reserves of oil are discovered and major capital expenditures are already made. When all preparation and exploratory works on the project are completed, where main capital expenditures are made, the evaluation of economic reasonableness of project is performed. Evaluation is to be completed during a year after drilling works on last exploratory well are completed. If the project is evaluated as economically reasonable it is transferred to the development stage.

Costs, including “internal”, related to drilling and equipment of development wells, including dry, and also costs required for necessary equipment and installation of injection wells in the process of oil and gas reserves development are capitalized. Company records these costs in its Oil and Gas Properties.

For the costs related to the rights for unproved reserves depletion is not charged. These costs are reclassified to the costs related to proved reserves at the moment of relevant reserve reclassification. Costs related to the rights for unproved reserves are subject to impairment review. In case of impairment these costs are written-off as period expense.

Capitalized license costs, acquired in process of OJSC Yuganskneftegaz acquisition, are recorded in accordance to SFAS 141 *“Business combinations”* based on their fair market value, determined at the date of acquisition by independent appraiser.

As of December 31, 2004 and 2003, the Company used oil and gas reserves data, which is in compliance with US GAAP and was estimated by DeGolyer and MacNaughton independent reservoir engineers. The Company used the reserve report to calculate depreciation, depletion and amortization relating to oil and gas properties for years 2004 and 2003. The reserve report is also utilized in the assessment of impairment of long-lived assets and for the required supplemental disclosure for oil and gas activities (see supplemental oil and gas disclosure).

Gains and losses are not recognized for normal retirements or sales of oil and gas related facilities subject to composite depreciation, depletion and amortization. It is assumed that liquidated oil and gas properties are fully depleted.

2. Summary of Significant Accounting Policies (continued)

Investment in Production Sharing Agreements and Mineral Properties

Sakhalin-1. The Company's primary investment in a PSA is through Sakhalin-1 (PSA 1), which is operated by ExxonMobil, one of the PSA participants. In February 2001, the Company signed an agreement with ONGC Videsh Ltd. ("ONGC") in relation to its interest in the PSA 1. Based on the terms of the arrangements and in accordance with SFAS 19 *"Financial Accounting and Reporting by Oil and Gas Producing Companies"* for the accounting for mineral conveyances, the Company treated the arrangement with ONGC as a sale of a partial mineral interest and a "carried interest" for the retained interest in the PSA (see Note 10). The Company carries the investment in its remaining interest at the cost of that investment. Funding payments made by ONGC for the Company's portion of development costs are not recognized by the Company as an obligation and also do not increase assets of the Company. In addition, net funds from operating activities associated with the retained interest will be recognized only to the extent that such funds or interests do not accrue to the benefit of ONGC for recovery of its investment in the carried interest. Due to the participation percentage, the nature of the investment and other arrangements, the Company considers its investment in PSA 1 to be equivalent to an equity interest in a business venture. As a result, it accounts for its investment in accordance with the equity method of accounting.

Sakhalin-5. In March 2004, the license for geological study of Kaigansko-Vasyukansky section of subsoil held by the Company was transferred to CJSC Elvari Neftegaz, which is the project operator. The project participants are subsidiaries of Rosneft and BP.

The Shareholders and Operational Agreement was signed between the participants and the operator in June 2004. In accordance with the terms of the signed agreement, the project funding during the exploration stage will be fully provided by BP, while at the development stage BP will carry a portion of payments due from the Company and will provide credit support to obtain the project funding. The project corporate structure has been completely set up. The Company recognizes this investment as an equity interest in a business venture. As a result, it accounts for its investment in accordance with the equity method of accounting.

In 2004, the first exploratory well which tested oil was successfully drilled. All preparatory work for 2005 drilling season was completed. In 2004, the Sakhalin-5 project was funded by BP in the amount of US$ 39.8 million (taking into account the share of the Company in the project).

The Company is party to other projects associated with the development of the Sakhalin shelf (Zapadno-Shmidtovsky and Vostochno-Shmidtovsky blocks). Under those arrangements, the other participant (BP) has agreed to pay for certain exploration costs on behalf of the Company for the respective projects. Exploration and development of these projects is in initial stages. Costs incurred by the Company associated with these projects are capitalized. The Company does not presently have significant costs associated with these investments. The Company's accounting for its participation in these projects will be evaluated as terms and conditions develop to determine if it accounts for those interests as investments in mineral interest in oil and gas operations or equity investments.

2. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment are stated at historical cost translated as at the date of acquisition net of accumulated depreciation. The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense. Renewals and betterments of assets are capitalized. Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are included in the determination of net income.

Impairment of Long-Lived Assets

From January 1, 2002 the Company has adopted SFAS 144 *"Accounting for the Impairment or Disposal of Long-Lived Assets"*. SFAS 144 establishes a probability-weighted cash flow estimation approach to deal with situations in which there is a range of cash flows that may be generated by the asset being tested for impairment.

<u>Exploration and Development Assets</u> – The recoverability of oil and gas properties, net of accumulated depreciation, is assessed whenever events or circumstances indicate a potential impairment.

Such assessment includes comparison of the book value of oil and gas properties with estimated non-discounted future cash flows before tax.

Revenues used in calculating future cash flows before tax are determined based on selling prices paid by end users and oil and gas reserves.

Analysis for impairment includes the cash flows from proved developed and undeveloped reserves (adjusted for certain risk factors), including any development expenditures, required for estimated production volume. If there are "probable" and "possible" categories of reserves, they also will be used in impairment, with the adjustment for the relevant risk factors.

The test is performed for each extraction division (NGDU), which is generally the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets.

<u>Refining, Marketing and Distribution</u> – The recoverability of these assets is generally evaluated based on evaluation of cash flows on the basis of key operating unit, generally legal entities. Because the assets of this segment (particularly the refining units) are largely an integrated set of operations, recognition of this condition is considered in evaluating a particular units value or utilization to generating other cash flows.

2. Summary of Significant Accounting Policies (continued)

Depreciation, Depletion and Amortization

All capitalized costs related to oil and gas producing activities and capitalized interest are depleted using the unit-of-production method. Management of the Company considers each extraction division (NGDU) as depletable geological structure. The depletion rate per unit of production (ton, barrel) is calculated by dividing the net depletable assets by the remaining estimated economically recoverable proved developed crude oil and gas reserves in respect of production assets. For the cost of acquired proven reserves the unit of production rate is based on total proved reserves. This rate is multiplied by the current year crude oil production to determine the depletion charge for the year.

The provision for depreciation and amortization with respect to operations other than oil and gas producing activities is computed using the straight-line method based on estimated economic lives.

Composite depreciation rates are applied to similar types of buildings and equipment having similar economic characteristics, as shown below:

Asset Group	Average Life
Buildings and constructions	30-35 years
Plant and machinery	15 years
Vehicles and other equipment	6 years
Service vessels	20 years
Offshore drilling assets	20 years

Capitalized Interest

Interest expense related to the use of borrowed funds intended for the capital projects and acquisition of properties should be capitalized provided that such interest expense, theoretically, could have been avoided if expenditures for the assets had not been made. Interest and investments in unproved properties are only capitalized for the period when activities are in progress to bring these projects to their intended use. The Company capitalized US$ 22.2 million and US$ 33.8 million of interest cost in 2004 and 2003, respectively.

Asset Retirement Obligations

The Company has potential asset retirement obligations associated with the conduct of its business activities. Nature of the assets and potential obligations are as follows:

<u>Exploration and Production</u> – The Company's field exploration, development, and production activities includes assets related to: well bores and related equipment and operating sites, gathering and oil processing systems, oil storage and pipelines to main transportation trunks. Generally, its licenses and other operating permits require certain actions to be taken by the Company in the abandonment of these operations after the end of production. Such actions include well abandonment activities, equipment dismantlement and other reclamation activities. The Company's estimates of future abandonment costs consider present regulatory or license requirements and are based upon management's experience of the costs and requirement of such activities.

2. Summary of Significant Accounting Policies (continued)

Asset Retirement Obligations (continued)

Refining, Marketing and Distribution – This business segment covers refining operations, marine and other distribution terminals, and retail networks. The Company's refining operations consist of major petrochemical operations and industrial complexes. These industrial complexes have been in operation for several decades. Because of the nature of the operation of these complexes, management believes that these industrial complexes have indeterminable lives, while certain operating components and equipment have definite lives. Legal or contractual obligations related to petrochemical, oil refining, marketing and distribution activities, are not recognized due to the limited history of such activities in these segments, lack of definitive legal requirements to the recognition of liabilities, as well as the fact that the useful lives of such assets are not readily determinable.

The Company's marine and distribution terminals, as well as retail locations, operate under permits from local regulatory bodies and leasing arrangements. These arrangements generally direct the Company to take certain actions to abandon those operations. Such actions include dismantling of equipment and reclamation of land and other property. The Company's estimate of future abandonment costs considers these requirements.

Inasmuch as the regulatory and legal environment in Russia continues to evolve, there could be future changes to the requirements and contingencies associated with the retirement of long-lived assets.

Fair Value of Financial Instruments

SFAS 107 *"Disclosure about Fair Value of Financial Instruments"* defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Financial assets and financial liabilities carried in the accompanying consolidated balance sheets include cash and cash equivalents, short-term and long-term investments, accounts receivable and payable, short-term debt and other current and non-current assets and liabilities. The accounting policies with respect to recognition and measurement of these items are disclosed in the respective accounting policies found in this Note.

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

Income Taxes

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

2. Summary of Significant Accounting Policies (continued)

Recognition of Revenues

Revenues are recognized when title passes to the customer, the selling price is fixed or determinable and collectibility is reasonably assured. Specifically, domestic crude oil sales and petroleum product and materials sales are recognized when they are shipped to customers, which is generally when title passes. For export sales, title generally passes at the border of the Russian Federation and the Company is responsible for transportation, duties and taxes on those sales. Revenues are shown net of value added tax. Sales of support services are recognized as services are performed providing that the price for the service can be determined and no significant uncertainties regarding realization exist.

Refinery Shutdown Costs

The Company recognizes costs of overhauls and preventive maintenance as expenses when incurred.

Comprehensive Income

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

As of December 31, 2003 the Company recorded other accumulated comprehensive income in the consolidated financials in the amount of US$ 13 million related to unrealized holding gain resulting from valuation of securities available-for-sale at their market value. There was no tax effect as a result of this transaction.

In the first six months of 2004 the securities were sold, and unrealized gain of these securities was recognized as other income together with the gain from sales of securities.

As at December 31, 2004, there are no other comprehensive income items and, therefore, comprehensive income for 2004 equals net income.

Accounting for Contingencies

Certain conditions may exist as of the date these consolidated financial statements are issued, which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company's management assesses such contingent liabilities. The assessment of loss contingencies necessarily involves an exercise of judgment and is a matter of opinion. In assessing loss contingencies related to legal or tax proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal or tax counsel evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

2. Summary of Significant Accounting Policies (continued)

Accounting for Contingencies (continued)

If the assessment of a contingency indicates that it is probable that a loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed. However, in some instances in which disclosure is not otherwise required, the Company may disclose contingent liabilities or other uncertainties of an unusual nature which, in the judgment of management and its legal or tax counsel, may be of interest to shareholders or others.

Recent Accounting Standards

In November 2004, the Financial Accounting Standards Board (the "FASB") issued SFAS 151 *"Inventory Costs"*, an amendment of the ARB 43, Chapter 4. The standard provides that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company will apply this standard with respect to inventory costs incurred during the fiscal year beginning from January 1, 2006. The management of the Company has not identified the impact this standard will have on the Company's financial position and results of operations.

In December 2004, the FASB issued SFAS 153 *"Exchanges of Nonmonetary Assets"*. SFAS 153 amends APB 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. The standard provides that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The Company will apply the provisions of SFAS 153 with respect to exchanges of nonmonetary assets conducted beginning from January 1, 2006. The management of the Company has not identified the impact this standard will have on the Company's financial position and results of operations.

In March 2004, the FASB approved agreed decision, which eliminates the discrepancy between the SFAS 141 *"Business combinations"* and decision of the Emerging Issues Task Force (the "EITF") regarding the recognition of license costs as tangible or intangible assets. In approved agreed decision license costs was considered as tangible assets. This decision will not have significant impact on the Company's consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

Recent Accounting Standards (continued)

In April 2005, the FASB issued FASB Staff Position FAS No. 19-1 *"Accounting for suspended well costs"* ("FSP FAS 19-1"). FSP FAS 19-1 amends SFAS 19 and applies to companies that follow the successful efforts method of accounting. FSP FAS 19-1 concludes that exploratory well costs should continue to be capitalized when the well has found a sufficient quantity of reserves to justify its completion as a producing well and an entity is making sufficient progress assessing the reserves and the economic and operating viability of the project. In addition FSP 19-1 requires certain disclosures to provide financial statement users information about management's evaluation of capitalized exploratory well costs. The provisions of FSP FAS 19-1 are effective for the first reporting period beginning after April 4, 2005 and should be applied prospectively to existing and newly capitalized exploratory well costs. The adoption of the provisions of FSP FAS 129-1 is not expected to have a material impact on the Company's results of operations, financial position or cash flow.

In May 2005, the FASB issued SFAS 154 *"Accounting changes and error corrections"*. SFAS 154 replaces APB Opinion No. 20 *"Accounting Changes"* ("APB 20"), and SFAS No. 3 *"Reporting Changes in Interim Financial Statements"*, and changes the requirements for the accounting for and reporting of a change in accounting principles. SFAS 154 requires retrospective application to prior period's financial statements of all changes in accounting principle, unless it is imparticable to determine either the period-specific effects or the cumulative effect of the change, if a pronouncement which requires the change in accounting principle does not include specific transition provisions. SFAS 154 carries forward without change the guidance contained in APB 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimates. The adoption of the provisions of SFAS 143 is not expected to have a material impact on the Company's results of operations, financial position or cash flow.

In March 2005, the FASB issued Interpretation No. 47 *"Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143"* ("FIN 47"). This interpretation clarifies that an entity is required to recognize a liability for a legal obligation to perform asset retirement activities when the retirement is conditional on a future event if the liability's fair value can be reasonably estimated. If the fair value of liability could not be reasonably estimated, entity should disclose financial statements the following information: description of liability; fact that liability was not recognized in financial statements, as its fair value could not be estimated; reasons which lead why the estimation of liability could not be done. Company does not expect significant impact of FASB decision on the Company's consolidated financial statements as all liabilities in accordance to the legislation regarding the asset retirement obligation in the future are already presented in Company's consolidated financial statements (see "Asset retirement obligation" paragraph of this Note).

In March 2005, the FASB issued FASB Staff Position FIN 46(R)-5 *"Implicit Variable Interests under FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities"* ("FSP FIN 46(R)-5"). FSP FIN 46(R)-5 is applicable to both nonpublic and public reporting enterprises and addresses an issue that commonly arises in leasing arrangements among related parties, and in other types of arrangements involving related parties and unrelated parties. The Company is analyzing the provisions of this interpretation to determine the effects, if any, on the Company's results of operations, financial position or cash flow.

3. Change in Accounting Principles

Since January 1, 2003 the Company applies SFAS 143 *"Accounting for asset retirement obligations"*. This statement is applied to liabilities for retirement of long-term lived tangible assets after its useful life expiration. In accordance to SFAS 143, fair value of liabilities for asset retirement obligation should be recognized in the period when the liabilities occurred, if the fair value of could be reasonably determined. Costs on asset retirement are capitalized in net book value of long-term lived assets.

As of December 31, 2003 the Company recorded an adjustment for accumulated effect of change in accounting principles as a result of implementation of this statement, increased net profit by US$ 49.6 million. Impact from implementation of this statement includes the increase in net book value of fixed assets by US$ 23.4 million, decrease in liabilities for asset retirement by US$ 41.8 million, increase in deferred tax liability by US$ 15.6 million.

4. Acquisitions and Disposals

OJSC Yugansneftegaz and Baikalfinancegroup LLC

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

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

4. Acquisitions and Disposals (continued)

OJSC Yugansneftegaz and Baikalfinancegroup LLC (continued)

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

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

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

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

The negative goodwill in the amount of US$ 7,052 million was allocated proportionally between Oil and Gas properties and Mineral rights. The resulting value of Mineral rights will be amortized in accordance to Company accounting policy for depletion of acquisition costs.

4. Acquisitions and Disposals (continued)

OJSC Yugansneftegaz and Baikalfinancegroup LLC (continued)

In accordance with SFAS 38 *"Accounting for preacquisition contingencies of purchased enterprises"* value of assets and liabilities of OJSC Yuganskneftegaz before December 31, 2005 could be adjusted based on the outcome of the "pre-acquisition" contingencies (see Note 24).

As discussed above, Company acquired less then 100% in share capital of OJSC Yuganskneftegaz and minority interest of 23.21% in share capital OJSC Yuganskneftegaz relates to the owner of preferred shares (see Note 21).

For the purposes of valuation of Oil and Gas properties, other Property Plant Equipment and Construction in Progress which relate to minority interest, Company used appraised values, as the previous shareholder did not provide the records of the historical cost of these non-current assets. Minority interest which relates to other assets and liabilities was determined based on their historical cost.

Income statement of OJSC Yuganskneftegaz for the year 2004 is not included in the consolidated statements of income, since acquisition date was close to year-end.

Acquisition of Additional Interests

Eniseineft LLC

In the first six months of 2004, the Company acquired 100% interest in Losiem Commercial for US$ 69.0 million. The purpose of the transaction was to acquire 100% control of Eniseineft LLC (as at December 31, 2003 the Company's interest was 59%) which holds the licenses for proved, probable and possible oil and gas reserves in a new prospective region of Russia with no infrastructure or oil and gas transportation systems. Net liabilities of Losiem Commercial as of acquisition date comprised US$ 5.5 million.

The excess of purchase price over the respective share of the net liabilities in the amount of US$ 74.5 million was allocated to capitalized costs related to proved and probable reserves based on the correlation between the future cash flows generated by proved and probable reserves according to the DeGolyer and MacNaughton report with adjustments for certain discount factors. Accordingly, the amount of US$ 39.8 million was additionally allocated to proved reserves. The total amount of US$ 132.1 million allocated to capitalized costs is subject to annual review for impairment. The management of the Company believes that as at December 31, 2004 no write-down is necessary.

OJSC Rosneft-Tuapse Refinery

In December 2004, the Company acquired 2,152,314 of common shares (39.38% of the total number of common shares) and 907,038 preferred shares (49.79% of the total number of preferred shares) in OJSC Rosneft – Tuapse Refinery through its overseas subsidiary RN-International, thus having increased its share in the charter capital of OJSC Rosneft – Tuapse Refinery to 81.51%. The cost of acquisition of the above shares amounted to US$ 183.9 million. Payment was made in cash. The excess of the purchase price over the fair value of net assets of OJSC Rosneft – Tuapse Refinery in the amount of US$ 34.6 million was included in the cost of property, plant and equipment of OJSC Rosneft – Tuapse Refinery.

4. Acquisition and Disposals (continued)

Acquisition of Additional Interests (continued)

Other acquisitions

In connection with acquisition of additional share of OJSC Rosneft – Tuapse Refinery, the Company also purchased 62% shares of OJSC Moto for US$ 2.3 million and 67% shares of CJSC Tuapse-Kemoil for US$ 3.8 million. Both companies provide petroleum refining, marketing and distribution services. All acquisitions made during the reporting period did not have a significant impact on results of the Company operations in 2004 as they occurred close to the year-end. Therefore, the pro forma statement of income including these companies has not been presented in these consolidated financial statements.

Other Changes to the Structure of the Company

In accordance with the long-term program for disposal of non-core assets, the Company is selling its subsidiaries engaged in non-core businesses. During 2004, interests in CJSC FK Rosneft-Finance and SK Neftepolis LLC (see also Note 6) were sold. The resulting gain from the sale of these interests was recognized in the consolidated financial statements in the amount of US$ 1.4 million.

In December 2004, OJSC Rosneft-Termneft (“Termneft”) merged with OJSC Krasnofarneftegaz (“Krasnodarneftegaz”) by way of conversion of Termeft shares into Krasnofarneftegaz shares. The merger did not have any significant impact on the consolidated financial statements.

5. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2004 and 2003 comprise the following:

	2004	2003
Cash in hand and cash in bank in RUR	**$ 731,220**	$ 85,568
Obligatory reserve in Central Bank of Russia	**10,955**	7,434
Cash in bank – hard currency	**282,392**	100,125
Interest bearing deposits – hard currency	**–**	12,630
Cash equivalents and other	**33,557**	29,455
Total Cash and Cash Equivalents	**$ 1,058,124**	$ 235,212

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

Cash accounts denominated in hard currency represent primarily cash in US dollars.

5. Cash and Cash Equivalents (continued)

Interest bearing deposits represent bank deposits readily convertible to known amount of cash and may be withdrawn by the Company at any time without prior notice or penalties.

Other cash is mainly represented by cash balances on special accounts in banks.

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

6. Short-Term Investments

Short-term investments as of December 31, 2004 and 2003 comprise the following:

	2004	2003
Short-term loans issued	**$ 4,426**	$ 50,881
Short-term loans to related parties (see Note 10)	**–**	199,399
Short-term promissory notes	**811**	830
Trading portfolio of the Company's bank		
Short-term promissory notes	**15,208**	8,977
Corporate bonds	**50,477**	11,038
Other	**13,586**	–
Settlements on notes with related party	**25,333**	–
Bank deposits	**3,000**	18,665
Short-term assignment agreements	**21,613**	–
Investments in available-for-sale securities	**15,265**	–
Other	**11,294**	823
Total short-term investments	**$ 161,013**	$ 290,613

Promissory notes, included in trading portfolio of the Company's bank represent promissory notes of top Russian banks.

Short-term promissory notes and promissory notes of related party represent available-for-sale securities. Their fair value approximates their book value due to their short-term nature.

Corporate bonds represent bonds from large Russian corporations with interest rates ranging from 8% to 16%.

In December 2004, the Company acquired 89.46% of the charter capital of SK Neftepolis LLC which had previously been sold to a third party (see Note 4). As a result of the acquisition, the Company increased its share in charter capital of the insurance company to 99.9%. The purpose of the acquisition was accumulation of the Company share for further disposal thereof to a strategic partner. This amount of US$ 15,265 was recorded as Investment in available-for-sale securities.

Unrealized gains and losses on trading securities of the Company's bank are not significant.

7. Accounts Receivable, Net

Accounts receivable as of December 31, 2004 and 2003, comprise the following:

	2004	2003
Trade receivables	**$ 448,002**	$ 196,026
Value added tax receivable	**517,765**	339,837
Advances to suppliers	**165,145**	104,605
Other taxes	**34,980**	47,712
Banking loans to customers	**240,528**	138,065
Other	**104,467**	122,901
YUKOS Group debt	**3,534,378**	–
Less allowance for doubtful accounts	**(74,797)**	(61,834)
Total accounts receivable, net	**$ 4,970,468**	$ 887,312

The Company's accounts receivables are denominated primarily in US dollars. Credit risk is managed through use of letters of credit.

Value added tax receivable (VAT) includes VAT related to construction-in-progress, which in accordance with Russian tax legislation will be reimbursed from the budget after the completion of construction.

YUKOS Group debt is composed of YUKOS Group payables to OJSC Yuganskneftegaz for oil supplied during the year 2004. This debt is recorded net of accounts payable by OJSC Yuganskneftegaz to the same legal entities. The relevant legal proceedings for this debt were initiated against YUKOS followed by arrest of shares of certain YUKOS Group entities as a security, which fair value at least approximates the amount of debt. Management of the Company believes that all debt will be redeemed with the property of YUKOS Group companies during the year 2005.

8. Inventories

Inventories as of December 31, 2004 and 2003, comprise the following:

	2004	2003
Materials and supplies	**$ 275,931**	$ 196,004
Crude oil and gas	**115,347**	70,035
Petroleum products	**125,588**	70,532
Total inventories	**$ 516,866**	$ 336,571

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

9. Prepaid Expenses

	2004	2003
Information systems development and use	**$ 30,661**	$ 18,399
Insurance payments	**8,341**	12,822
Customs	**41,042**	2,025
Other expenses	**45,737**	34,643
Total prepaid expenses	**$ 125,781**	$ 67,889

9. Prepaid Expenses (continued)

Expenses on information systems development and use relate to the implementation of computer information systems and equipment installation.

10. Long-Term Investments

Long-term investments as of December 31, 2004 and 2003, comprise the following:

	2004	2003
Equity investments		
Sakhalin-1 PSA	**$ 59,384**	$ 59,384
Polar Lights Company LLC	**65,061**	29,260
CJSC Sevmorneftegaz	**–**	36,108
CJSC Kaspiy-1	**16,382**	17,040
Total	**140,827**	141,792
Russian government bonds	**9,032**	3,533
Long-term loans issued	**80,818**	61,622
Long-term loan to related party	**12,954**	12,204
Investments in joint operations	**4,386**	11,896
Settlements on promissory notes with related party	**40,968**	–
Other	**85,086**	57,582
Total long-term investments	**$ 374,071**	$ 288,629

“Sakhalin-1” PSA

The terms of CJSC Rosneft-Astra and CJSC Rosneft-Sakhalinmorneftegaz-Shelf, the Company’s subsidiaries’ (hereinafter the “PSA Subsidiaries”) share in Sakhalin-1 PSA include funding of the PSA Subsidiaries' carried interests by ONGC. In accordance with the share purchase agreement, ONGC undertakes to provide funding in the amount as per the agreement with the agreed-upon rate of return.

The terms of the carried interest agreements provide that the PSA Subsidiaries will maintain their operations and protect their respective interests in the Sakhalin-1 PSA Agreement for the benefit of ONGC. Failure to do so could allow ONGC to cease funding of the carried interests. Further, ONGC is entitled to 90% of the net funds associated with the retained interests PSA Subsidiaries in the development of the PSA. The Company has agreed to indemnify ONGC for losses or damages sustained by ONGC for failure of the PSA Subsidiaries to, in effect, maintain the retained interests and has further pledged the shares in the PSA Subsidiaries in support of the indemnity. The PSA Subsidiaries are entitled to 10% of the net funds associated with the interests until such time as ONGC’s investment and rate of return is recovered. At such point, the PSA Subsidiaries’ shares in the PSA revert back to PSA Subsidiaries in their entirety. As of December 31, 2004, ONGC has provided approximately US$ 539 million toward the funding of the PSA Subsidiaries’ retained interest in the project costs.

10. Long-Term Investments (continued)

Polar Lights Company LLC ("PLC")

PLC is a limited liability company owned 50% by Conoco Phillips Timan-Pechora Inc., and 50% by the Company as of December 31, 2004 and 2003. PLC's primary emphasis has been the development of the Ardalin and satellite fields in the Timan-Pechora Basin located 125 kilometers south of the Barents Sea above the Arctic Circle. Development work on the Ardalin field began in late 1992 and the first oil was produced in 1994.

In 2003 the Company purchased 30% share of PLC. The share was acquired as a result of exchange of 25% shares of OJSC "Arhangelskgeoldobicha" for 30% of shares of PLC and 13% of shares of CJSC "Rosshelf". According to principles of accounting for exchange with similar assets, purchased shares of PLC should be recorded at book value of AGD shares relinquished, which was equal to zero as of exchange date due to loss incurred in prior periods.

As a result of the PLC acquisition, the Company's equity share in the underlying net assets of PLC exceeds its investment by approximately US$ 45.8 million. The Comapny attributes this excess to a favorable purchase of PLC's interest in reserves.

The positive difference is accreted to income proportional to the depletion of oil and gas properties and totaled to US$ 9.4 million in 2004.

CJSC Sevmorneftegaz

In January 2002, the Company, through OJSC Rosneft-Purneftegas, and OJSC Gazprom, through CJSC Rosshelf, jointly established CJSC Sevmorneftegaz with equal shares in equity. The cost of investment in Sevmorneftegas was US$ 0.017 million. Sevmorneftegaz is primarily engaged in exploration and production activity on Prirazlomnoye oil field, Shtokmanovskoye, Etypurovskoe and Vyngayahinskoe gas-condensate fields, and Kharampurskoe oil and gas-condensate field. In 2003 licenses for Prilazlomnoe and Shtokmanovskoe fields were transferred from CJSC Rosshelf to CJSC Sevmorneftegaz.

In December 2004, the Company's share in the project was sold to representatives of the other participant (the "Buyer") in order to obtain funds for acquisition of OJSC Yuganskneftegaz (see Note 4). In December 2004 the Company received full payment per shares purchase agreement. Title to shares of CJSC Sevmorneftegaz was transferred to the Buyer in March 2005. Under the share purchase provisions, the Buyer has the right to notify the Company, not later than the end of June 2005, of its intention to sell the acquired share back to the Company and the Company shall be obliged to take back and pay for such share. The Buyer didn't exercise his right for repurchase at the time stated in the contract.Prepayment for the shares is recorded as a part of short-term liabilities as of December 31, 2004 (see Note 17).

The Company also sold the promissory notes issued by CJSC Sevmorneftegaz for the total amount of US$ 211,657 (US$ 199,399 as of December 31, 2003), equaling their carrying value.

As of December 31, 2004 and 2003 the Company held minority interest in CJSC Rosshelf of 26%, which was accounted at cost.

10. Long-Term Investments (continued)

CJSC Kaspiy-1

In 1997, subsidiary of the Company made a contribution in charter capital of CJSC Kaspiy-1, which was founded for the construction of an oil refinery in Makhachkala (Dagestan Republic). Primary construction work is completed as of December 31, 2004. During 2004, preparatory commissioning activities were conducted; the refinery is planned to be commissioned in 2005.

Long-Term Loans

Long-term loans represent loans issued by the Company to the third parties for more than 12 months that are primarily used for joint activities. Long-term loans issued also include long-term portion of loans payable by the Company's bank. Long-term loans are accounted in the financial statements as financial instruments held to maturity. Their maturities vary from 2006 to 2014. These loans bear interest rates from 5% to 22%.

Long-Term Loan to Related Party

Long-term loan to related party represents interest-free loan to CJSC Kaspiy-1 with maturity in 2007 (see above).

Investments in Joint Operations

Investments in joint operation represent certain projects of the Company, related mainly to services on reloading of oil and petroleum products.

Settlements of Promissory Notes with Related Party

Promissory notes of related party are interest free promissory notes, used by the Company for settlement of accounts payable for the goods or services purchased and recorded in accordance with FIN 39 *"Settlements of contract liabilities"*. Maturity date of promissory notes will take place mainly in year 2008 and 2010. These promissory notes were recorded in the consolidated financial statements as securities available-for-sale. Unrealized gains and loses on these securities are not significant.

Other Investments

Other investments represent shares, equity and other long-term investments, which are individually insignificant. These investments are accounted for at cost.

11. Oil and Gas Properties, Net

Oil and gas properties as of December 31, 2004 and 2003 comprise the following:

	2004	2003
Oil and gas properties related to exploration and extraction	**$ 10,523,762**	$ 4,754,244
Mineral rights	**7,446,807**	652,659
Pipelines	**802,243**	291,770
Equipment under capital lease	**144,207**	53,471
Total	**18,917,019**	5,752,144
Less: accumulated depletion	**(2,436,398)**	(2,519,883)
Net oil and gas properties	**$ 16,480,621**	$ 3,232,261

Oil and gas properties include costs to acquire unproved properties in the amount of US$ 1,041 million and US$ 266 million as of December 31, 2004 and 2003, respectively. The Company has certain plans to develop and assess the respective fields. The Company's management believes these costs are recoverable.

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

12. Property, Plant and Equipment and Leased Property, Net

Property, plant and equipment as of December 31, 2004 and 2003 comprise the following:

	2004	2003
Offshore drilling assets	**$ –**	$ 173,265
Service vessels	**12,977**	96,532
Buildings and constructions	**1,729,267**	1,277,286
Plant and machinery	**1,071,114**	568,511
Vehicles and other equipment	**280,235**	292,354
Fixed assets under capital lease	**43,341**	34,985
Total	**3,136,934**	2,442,933
Less: accumulated depreciation	**(1,377,834)**	(1,399,394)
Net other property, plant and equipment and fixed assets under capital lease	**$ 1,759,100**	$ 1,043,539

13. Construction-in-Progress

Construction-in-progress includes various construction projects and machinery and equipment delivered but not yet installed. Construction-in-progress as of December 31, 2004 and 2003 comprise the following:

	2004	2003
Equipment to be installed	**$ 61,444**	$ 40,446
Buildings and constructions	**272,748**	223,770
Plant and machinery	**96,791**	75,270
Vehicles and other equipment	**49,750**	28,736
Total construction-in-progress	**$ 480,733**	$ 368,222

14. Capital Lease

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

	2004	2003
Oil and gas properties	**$ 144,207**	$ 53,471
Less: accumulated depletion	**(1,855)**	(2,423)
Oil and gas properties, net	**142,352**	51,048
Other property, plant and equipment		
Buildings and constructions	**1,009**	–
Plant and machinery	**15,830**	11,729
Vehicles and other equipment	**26,305**	23,186
Other	**197**	70
Total	**43,341**	34,985
Less: accumulated depreciation	**(8,693)**	(2,363)
Other property, plant and equipment, net	**34,648**	32,622
Total carrying value of leased assets	**$ 177,000**	$ 83,670

14. Capital Lease (continued)

The aggregate maturity of capital lease payments outstanding at December 31, 2004 is as follows:

	2004
2005	**$ 19,889**
2006	**15,895**
2007	**7,753**
2008	**6,333**
2009	**8,448**
2010 and after	**4,026**
	62,344
Imputed interest	**(10,747)**
Net discounted lease payments	**$ 51,597**

Primarily, all lease transactions are conducted through a single leasing company. The Company provides financing to the leasing company for the purchase of equipment, which is then leased to the Company. Under the agreement, the Company has the right to offset the lease obligations against promissory notes receivable. As of December 31, 2004 lease obligations in the amount of US$ 29.2 million were netted against Related Party promissory notes (see Note 10).

15. Other Non-Current Assets

Other non-current assets mainly include a loan to OJSC Sibur-Tumen in the amount of US$ 19.2 million restructured under amicable agreement and previously recognized as accounts receivable. This loan receivable is stated at fair value net of allowance for loan losses in the amount of US$ 7.7 million and is scheduled to be settled in 2013.

16. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of December 31, 2004 and 2003 comprise the following:

	2004	2003
Trade accounts payable	**$ 619,943**	$ 245,837
Salary, insurance and other payables	**80,546**	51,190
Advances received	**66,323**	47,507
Dividends payable	**15,652**	22,077
Promissory notes payable	**20,352**	94,216
Due to other banks	**176,779**	98,771
Obligatory insurance and pension reserves	**–**	61,980
Other	**449,901**	77,331
Total accounts payable and accrued liabilities	**$ 1,429,496**	$ 698,909

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

17. Short-Term Loans and Long-Term Debt

Short-term loans from banks and other organizations as of December 31, 2004 and 2003 comprise the following:

	2004	2003
US$ denominated		
Bank loans	**$ 346,719**	$ 63,168
Other borrowings	**30,929**	29,554
Ruble denominated		
Bank loans	**3,147**	7,796
Other borrowings	**137,771**	157,549
OJSC Yuganskneftegaz borrowings	**363,869**	–
	882,435	258,067
Current portion of long-term debt	**998,458**	329,763
CJSC Sevmorneftegaz shares repurchase liability	**1,344,315**	–
Raised funds for financing OJSC Yuganskneftegaz acquisition	**1,441,732**	–
Total short-term loans and current portion of long-term debt	**$ 4,666,940**	$ 587,830

Other ruble-denominated borrowings include loans received by subsidiary Bank of the Company at the interest rate of 2%.

The rate of interest on the Company's short-term loans denominated in US dollars was LIBOR plus 1.75% - 7% annually. The ruble-denominated loans were mostly issued at an annual interest rate of 8% in 2004.

OJSC Yuganskneftegaz borrowings include promissory notes denominated in RUR issued by the companies of YUKOS Group, which were used to finance the working capital. Interest rate of promissory notes varies from 0% to 18%.

CJSC Sevmorneftegaz share repurchase liability represents prepayment under the contract of CJSC Sevmorneftegaz shares sale (see Note 10). According to the contract terms the Buyer has the right to request the Company in writing to repurchase the shares until June 2005, and the Company is obliged to accept the request and pay. The repurchase price is set as US$ 1,344 million (at the exchange rate as of December 31, 2004) plus accumulated interest at the date of repurchase at 0.4% annual interest rate not to exceed US$ 2.7 million. The Buyer didn’t exercise his right for repurchase at the time stated in the contract.

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

Long-term debt as of December 31, 2004 and 2003 comprise the following:

	2004	2003
Bank loans – US$ denominated	**$ 2,759,242**	$ 2,102,625
Long-term bond of a subsidiary bank	**–**	19,522
Other borrowings	**142,874**	29,663
Other long-term borrowings of OJSC Yuganskneftegaz	**641,170**	–
	3,543,286	2,151,810
Raised funds for financing OJSC Yuganskneftegaz acquisition	**6,465,000**	–
Less current portion of long-term debt	**(998,458)**	(329,763)
Total long-term debt	**$ 9,009,828**	$ 1,822,047

The US$ denominated long-term loans bear the interest rate of LIBOR rate plus 1.25% to LIBOR plus 4%. Interest rate of the loan received in 2001 under issued Eurobonds and maturing in November 2006 is 12.92%. Payables on this loan were US$ 150.8 million and US$ 150.9 million as of December 31, 2004 and 2003 respectively.

Funds raised to finance OJSC Yuganskneftegaz acquisition (see Note 4) include short-term state-owned bank loans bearing an 8% annual interest rate in the amount of US$ 1,805 million and promissory notes issued in the amount of US$ 6,102 million at 2.5% annual interest rate. These loans and borrowings were refinanced by long-term loans in the beginning of 2005 in the amount of US$ 1,165 and US$ 5,300 million, respectively (see Note 27), therefore, per SFAS 6 *"Classification of Short-Term Obligations Expected to Be Refinanced"* these obligations are included in long-term loans and borrowings.

Other long-term loans of OJSC Yuganskneftegaz are ruble denominated loans and interest free promissory notes denominated in RUR issued by the YUKOS Group companies and were used for financing of working capital. Interest rate on loans received is 9% per annum with maturity in 2007. Maturity of promissory notes is not earlier than in 2006.

As of December 31, 2004 other borrowings include promissory notes payable and banking customer deposits of the subsidiary bank.

As of December 31, 2004 and 2003, the Company's collateral for short-term and long-term bank loans were oil and gas properties in the amount of 2,393.7 million rubles and RUR 4,072.5 million, respectively (US$ 86.3 million and US$ 138.3 million at the exchange rate as of December 31, 2004 and 2003, respectively).

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

Loan agreements contain a number of covenants, which the Company is obliged to comply with. Those covenants include Company's obligations to maintain certain financial ratios at an agreed level. As a result of raising finance for the purchase of OJSC Yuganskneftegaz, certain covenants were violated; i.e. ratio of consolidated net debt to consolidated EBITDA (operating profit excluding DD&A and accretion expense) and ratio of consolidated net debt to consolidated tangible net worth. The long-term portion of the consolidated debt, for which covenants have been violated, amounted to US$ 1,661 million. The Company is currently negotiating with creditors to obtain approval from participants of syndicated loans and Eurobond holders to receive waiver for covenants in violation and to change covenants in line with the Company's new structure and scope of activities. As of the date of financial statements approval the arrangement was not reached, however it is management's opinion that the preliminary negotiations do not indicate to the intentions of banks to call the debt because of violated covenants. Therefore, the Company continues to classify this debt as long-term.

Under certain loan agreements, the Company must maintain an export contract/aggregate debt outstanding ratio, i.e. Coverage Ratio, ranging from 125% to 130%. This requirement applies to outstanding debt of approximately US$ 1,746 million and US$ 1,132 million as of December 31, 2004 and 2003, respectively. The above covenant obliges the Company to maintain firm sales contracts settled in US dollars for which committed export volumes are calculated on the basis of minimum prices stipulated by the loan documentation. Such export volumes should correspond to the coverage ratio. As a requirement, the terms of concluding such covered contracts give the lender an express right of claim for contractual revenue which must be remitted directly to transit currency (US dollar denominated) accounts with those banks in case of the Company's default on timely repayment of debt.

The aggregate maturity of long-term debt outstanding (including OJSC Yuganskneftegaz refinancing) at December 31, 2004 is as follows (assuming the debt will not be called by creditors ahead of scheduled maturities):

	2004
2005	**$ 998,458**
2006	**2,031,658**
2007	**2,016,998**
2008	**1,644,720**
2009	**1,470,404**
2010 and after	**1,846,048**
Total long-term debt	**$ 10,008,286**

18. Shareholder's Equity

The shareholder's capital account represents the authorized capital of the Company, as stated in its Charter. If dividends are paid on common shares, dividend rate per one preferred share may not be less than common share dividend rate.

18. Shareholder's Equity (continued)

As of December 31, 2004 and 2003, the Company's entire common and preferred shares were held by the Government of the Russian Federation. In accordance with Russian Accounting Regulations, earnings available for dividends are limited to current-year income, retained earnings and other income, denominated in rubles, after certain deductions.

In November 2004, the Company's Board of Directors decided to place additional common stock of the Company by means of converting the convertible preferred stock based on the ratio of one preferred share at 1 RUR par value for one common share at 1 ruble par value.

The annual general meeting of shareholders declared dividends on common shares of RUR 1,500 million or US$ 51.7 million for 2003 at the exchange rate on the date of that decision.

19. Accrued Income and Other Taxes

Accrued income and other taxes as of December 31, 2004 and 2003, comprise the following:

	2004	2003
Mineral extraction tax	**$ 994,224**	$ 46,641
Value added tax	**282,577**	33,773
Excise tax	**14,173**	13,901
Personal income tax	**12,639**	6,331
Property tax	**23,710**	11,542
Income tax	**216,154**	8,140
Other taxes	**16,621**	10,443
Total accrued income and other taxes	**$ 1,560,098**	$ 130,771

20. Asset Retirement Obligations

The movement of asset retirement obligations is as follows:

	2004	**2003**
Asset retirement obligations as of January 1	**$ 126,488**	**$** 140,591
Cumulative effect of adopting SFAS 143 at January 1, 2003	–	(41,790)
Recognition of additional liabilities for new wells	**4,579**	16,770
Accretion expense	**8,490**	10,917
Changes in estimates	**28,835**	–
Assumed OJSC Yuganskneftegaz obligations	**386,600**	–
Asset retirement obligations as of December 31	**$ 554,992**	$ 126,488

21. Minority Interests

Minority owners' interests in the Company's subsidiaries as of December 31 comprise the following:

	2004		2003	
Company	**Minority interest**	**Minority interest share in net assets**	**Minority interest**	**Minority interest share in net assets**
	%		%	
OJSC Rosneft-Purneftegaz	**16.91**	**$ 194,301**	16.91	$ 158,132
OJSC Rosneft-Sakhalinmorneftegaz	**35.63**	**221,623**	36.66	231,242
OJSC Rosneft-Krasnodarneftegaz	**49.22**	**100,605**	48.94	84,686
OJSC Rosneft-Stavropolneftegaz	**28.05**	**19,267**	28.05	23,048
OJSC Rosneft-Tuapse Nefteproduct	**62.00**	**129,689**	62.00	114,839
OJSC Rosneft-Komsomolsky Refinery	**22.69**	**12,607**	22.69	12,063
OJSC Rosneft-Tuapse Refinery	**18.49**	**10,529**	60.47	29,711
OJSC Yuganskneftegaz	**23.21**	**1,724,633**	–	–
Other		**122,179**		135,385
Total		**$ 2,535,433**		$ 789,106

22. Revenues

Oil and gas sales include export customs duty of US$ 535.3 million for 2004 and excise tax on gas of US$ 5.2 million and export customs duty of US$ 271.9 million in 2003. Refined products and processing fees include excise tax of US$ 46.0 million and export customs duty of US$ 170.6 million in 2004 and excise tax of US$ 24.8 million and export customs duty of US$ 133.5 million in 2003. Support services and other sales include excise tax of US$ 8.1 million and export customs duty of US$ 0.3 million in 2004 and export customs duty of US$ 0.2 million in 2003.

23. Income Taxes

Income taxes for the years ended December 31 comprise the following:

	2004	2003
Current income taxes	**$ 308,614**	$ 244,276
Deferred income taxes	**(11,008)**	(43,291)
Total provision for income taxes	**$ 297,606**	$ 200,985

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

23. Income Taxes (continued)

Temporary differences between the Russian statutory accounts, tax records and these consolidated financial statements give rise to the following deferred tax assets and liabilities as of December 31:

	2004	2003
Deferred tax asset arising from tax effect of:		
Asset retirement obligations	**$ 35,957**	$ 30,158
Fixed assets	**73,522**	53,928
Accounts receivable	**15,014**	15,440
Accounts payable	**8,329**	–
Inventory obsolescence	**9,413**	5,771
Long-term investments	**5,622**	2,592
Short-term investments	**800**	2,673
Other	**12**	–
Total	**148,669**	110,562
Provision for deferred tax asset	**(115,546)**	(67,242)
Deferred tax asset	**33,123**	43,320
Deferred tax liability arising from tax effect of:		
Long-term liabilities	–	(7,492)
Mineral rights	**(1,640,861)**	–
Property, plant and equipment and other	**(1,212,757)**	(67,045)
Deferred tax liability	**(2,853,618)**	(74,537)
Net deferred tax liability	**$ (2,820,495)**	$ (31,217)

Deferred tax liability calculated for captions Mineral rights and Property, plant and equipment includes deferred tax liabilities assumed as a result of the purchase of OJSC Yuganskneftegaz in the amount of US$ 2,758.9 million and the acquisition of additional shares in OJSC Rosneft-Tuapse Refinery in the amount of US$ 40.3 million.

Classification of deferred taxes:

	2004	2003
Current deferred tax asset	**$ 27,629**	$ 23,494
Long-term deferred tax asset	**5,494**	19,826
Current deferred tax liability	–	3,579
Long-term deferred tax liability	**2,853,618**	70,958

23. Income Taxes (continued)

Although the Company does not pay tax on a consolidated basis, a reconciliation of expected income tax expense to the actual tax expense for the years ended December 31 is as follows:

	2004	**2003**
Income before income taxes	**$ 1,200,382**	$ 589,422
Statutory income tax rate	**24.00%**	24.00%
Theoretical income tax expense	**288,092**	141,461
Add (deduct) tax effect of:		
Change in valuation allowance reserve	**43,457**	8,376
Permanent accounting differences arising from:		
Non-deductible items, net	**3,672**	70,107
Loss carried forward	**–**	(774)
Foreign exchange effects, net	**(23,338)**	(15,782)
Other	**(14,277)**	(2,403)
Income taxes	**$ 297,606**	$ 200,985

24. Commitments and Contingencies

Capital Projects for Exploration and Development of Production Facilities, and Modernization of Refineries and Distribution Network

The Company and its subsidiaries are engaged in continuous capital projects for exploration and development of production facilities and modernization of refineries and distribution network. Management estimates the total cost of such programs to be US$ 1,491.3 million at its exploration and production subsidiaries and US$ 141.4 million at its refining and marketing subsidiaries in 2005. Depending on the current market situation actual expenditures may vary from the above estimates.

The Company plans to finance a significant portion of these projects internally. At the same time, the Company is looking for external sources of financing. It is the opinion of management that the Company will be able to obtain all necessary financing to complete the existing and planned capital projects.

Taxation Contingencies

Legislation and regulations regarding taxation in Russia continue to evolve along with development of the country as a market-oriented economy.

Legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local, regional and national tax authorities. Instances of inconsistent opinions are not unusual.

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

24. Commitments and Contingencies (continued)

Taxation Contingencies (continued)

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

Environmental Matters

Companies operating in the oil and gas and other mining industries are continuously subject to environmental risk. Management is of the opinion that the Company has met the requirements of environmental legislation, and, therefore, believes that the Company does not have any material current environmental liabilities other than those provided. However, legislation and other regulatory matters will continue to evolve and therefore will affect the Company's compliance expenditures.

Pension Plans

The Company and its subsidiaries make contributions to the State pension fund of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such contributions are charged to expense as incurred.

In 2000, the Company created a Pension Fund to finance non-government pensions for its employees. The Pension Plan requires monthly contributions by the employer calculated based on statutory minimal payroll payment.

Payments from the Pension Fund to eligible participants are based on the amount accumulated in the individuals' pension account and the Company has no post-retirement costs that require to be accumulated.

This plan is qualified as defined contribution plan under definition of SFAS 87 *"Employers' Accounting for Pensions"*.

The Company contributed US$ 13.0 million and US$ 17.1 million in 2004 and 2003 respectively.

Insurance Matters

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

As of December 31, 2004 and 2003 the amount of coverage on assets for such insurance amounted to US$ 661 million and US$ 2,264 million, respectively.

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

24. Commitments and Contingencies (continued)

Social Commitments

The Company possesses social infrastructure assets for the use of employees. In accordance with the Presidential Decree on privatization in Russia, the Company is required to transfer the social infrastructure assets to the relevant local city administrations for no significant consideration. Accordingly, as the Company does not have ownership of these assets, they are not recorded in these consolidated financial statements.

The Company has incurred US$ 81.2 million and US$ 80.6 million in 2004 and 2003, respectively.

Charity Expenses

During 2004 and 2003 the Company incurred US$ 44 million and US$ 53 million 2004 и 2003 of charity expenses in various regions of Russia where the Company operates. Charity expenses are included as other expenses in the consolidated statements of income.

Guarantees and Indemnity

As of December 31, 2004, the Company provided certain guarantees to secure bank loans. The Company is obliged to repay the whole amount of bank loans together with interest and other dues upon bank request.

The Company cannot substitute guarantees issued by any novation agreement or mutual offset. The Company's obligations under guarantees issued are valid in case of any change in loan agreements. The Company does not have the first right of demand.

After the full payment of all obligations under the guarantee the Company has the right to subrogate its respective part of all bank claims against the debtor in accordance with the loan agreement. In case the Company makes payments under guarantees issued it has a right to claim the amount from the debtor.

The maximum potential amount of future payments under guarantees issued by the Company includes the outstanding portion of principal debt, outstanding interest for the use of loans and any fines or penalties under loan contracts.

Beneficiary Bank	Loan debtor	Maturity date	Maximum potential amount of future payment (principal amount)	Current carrying amount of outstanding liability (principal amount) as of December 31, 2004
Sberbank of Russia	CJSC Sevmorneftegaz	October 1, 2005	**$ 57,000**	**$ 47,394**
Societe Generale S.A.	OJSC YUKOS	May 29, 2009	**1,000,000**	**525,806**
Societe Generale S.A.	OJSC YUKOS	May 29, 2009	**1,600,000**	**804,875**

24. Commitments and Contingencies (continued)

Guarantees and Indemnity (continued)

Societe Generale S.A. claimed outstanding liabilities on loans from OJSC Yuganskneftegaz. For the loan in amount of US$ 1,000 million the claim were also addressed to other guarantors, which are not Rosneft group companies. The Company currently holds negotiations with the bank and inquires into the facts and circumstances related to the OJSC Yuganskneftegaz guaranties. At the beginning of 2005 the amount of outstanding liability to Societe Generale S.A. decreased to US$ 1,129 million (principal amount). The Company believes that the risk of any payments under the guarantees is remote.

As described in Note 10, the Company has agreed to indemnify ONGC for losses in certain circumstances.

Litigation

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

In February 2003, OJSC Northern Oil signed an addendum to the license agreement on restructuring of contributions to the social and economic development of NAA. By the Ruling of the Moscow Arbitration Court the company shall pay to the NAA Administration US$ 19 million of the principal amount and penalty of US$ 1 million. The rest of the claim was rejected. The company prepared an appeal to be submitted to the Arbitration Court in order to challenge the ruling of the first instance court. The decision of appeals instance of Moscow's Arbitration Court was to reject the complaint. The amount of liabilities as of December 31, 2003, was recorded as other accounts payable in the consolidated financial statements. The Company claimed the appeal on error which was satisfied by the Federal Arbitration Court Resolution of February 15, 2005. However on May 31, 2005 Moscow's Arbitration Court obliged OJSC Northern Oil to pay US$ 19 million of principal amount of license payments and penalty in amount of US$ 5.6 million. OJSC Northern Oil intends to prepare appeal to be submitted to Moscow's Arbitrage Court. The penalty was accrued in the full amount in these consolidated financial statements.

As of December 31, 2004, OJSC Yuganskneftegaz has disputes with tax authorities on the decisions issued by the results of tax audits in the total amount of US$ 5,141 million. The Company is inquiring into these claims, and all prior rulings are appealed against in court and in pre-trial disputes. The Company's management believes that the probability of a favorable court ruling is high.

As of May 2, 2005 OJSC Yuganskneftegaz received 22 claims for total amount of RUR 7,209 million (US$ 260 million at exchange rate as of December 31, 2004). The amount of claims is already included in accounts payable of OJSC Yuganskneftegaz. For 11 claims for the amount of RUR 289 million (US$ 10.4 million) amicable agreements were concluded.

24. Commitments and Contingencies (continued)

Litigation (continued)

Accounts payable of OJSC Yuganskneftegaz also include claims of contractors, affiliated to the previous owner of OJSC Yuganskneftegaz in amount of RUR 962 million (US$ 34.7 million at the exchange rate as of December 31, 2004) All liabilities to these contractors are recorded and presented in full amount in the consolidated financial statements.

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

License Agreements

In accordance with license agreements the Company's subsidiaries is obliged to conduct various environmental programs. For these purposes the Company has to expend approximately US$ 128.4 million over the period of development of oil fields. In addition, it is obligated to make annual contributions to a Regional Authority for social obligations in the annual amount of US$ 5 million through 2019.

Oil Supplies

In January 2005 the Company entered into a long-term contract until 2010 for export supplies of crude oil in the amount of 48.4 million tons. Portion of revenues from oil export sales will be used to repay the loan (see Note 27).

Other Contingencies

The Company's management believes that potential future contingencies not recorded in the accompanying consolidated financial statements are not significant and will not affect the future financial position of the Company.

25. Segment Information

Presented below is information about the Company's operating segments for the years ended December 31, 2004 and 2003, in accordance with SFAS 131 *"Disclosures about Segments of an Enterprise and Related Information"*. The Company determined its operating segments based on differences in the nature of their operations. The performance of these operating segments is assessed by management on a regular basis. The exploration and production segments explore, find, develop and produce crude oil and natural gas. The refinery, marketing and distribution segments process crude oil and other hydrocarbons into refined products and purchase, sell, transport crude oil and refined petroleum products. Corporate finance and other segments include banking and finance services, drilling services, vessel hire management, software support and other activities. Substantially all of the Company's operations are conducted in the Russian Federation. Further the geographical regions within the Russian Federation have substantially similar economic and regulatory conditions. Therefore, the Company has not presented any separate geographical disclosure.

25. Segment Information (continued)

The significant accounting policies applied to each segment are consistent with the Russian statutory accounting policies as adjusted and applied to the consolidated financial statements. Intersegment sales and services are conducted at transfer prices between the Company and its subsidiaries. Intersegment receivables represent outstanding balances between the Group companies, arising in the normal course of business. The Company allocates certain profits, losses and assets for its subsidiaries, which operate in various segments, in proportion to gross revenues these subsidiaries earn from activity of each segment. The Company and its subsidiaries operated within the Russian Federation. The Company had crude oil export sales of US$ 2,514 million and US$ 1,564 million in 2004 and 2003 respectively. The Company had oil products export sales of US$ 924 million and US$ 811 million in 2004 and 2003 respectively.

Operating segments in 2004:

	Exploration and Production	**Refining, Marketing and Distribution**	**Finance and Other**	**Consolidated**
Total revenues	**$ 3,640,253**	**$ 2,378,669**	**$ 723,616**	**$ 6,742,538**
Less: intersegmental revenues	**(845,409)**	**(126,232)**	**(495,502)**	**(1,467,143)**
Revenues from external customers	**2,794,844**	**2,252,437**	**228,114**	**5,275,395**
Operating income	**$ 582,830**	**$ 550,716**	**$ 106,678**	**$ 1,240,224**
Depreciation, depletion and amortization	**(236,436)**	**(55,051)**	**(15,587)**	**(307,074)**
Total assets	**$ 22,691,488**	**$ 2,010,123**	**$ 1,285,828**	**$ 25,987,439**

Operating segments in 2003:

	Exploration and Production	**Refining, Marketing and Distribution**	**Finance and Other**	**Consolidated**
Total revenues	$ 2,361,274	$ 1,751,344	$ 452,231	$ 4,564,849
Less: intersegmental revenues	(513,427)	(109,055)	(301,335)	(923,817)
Revenues from external customers	1,847,847	1,642,289	150,896	3,641,032
Operating income	$ 285,585	$ 374,225	$ 58,774	$ 718,584
Depreciation, depletion and amortization	(246,460)	(43,712)	(11,889)	(302,061)
Total assets	$ 3,746,249	$ 2,415,230	$ 635,927	$ 6,797,406

26. Fair Value of Financial Instruments and Credit Risk Management

The Company, in connection with its current activities, is exposed to various financial risks, such as foreign currency risks, interest rate risks and credit risks.

The Company manages these risks and monitors their exposure on a regular basis. The Company does not use hedge or derivative financial instruments.

Management believes that a reasonable approximation of fair value of accounts receivable is not practical due to unavailability of their fair (market) estimates. Management expects such accounts receivable, net of allowances for doubtful accounts, to be settled in full within reasonable period of time. The carrying amount of all other financial instruments approximates their fair value.

27. Subsequent Events

In January 2005, the Company received a US$ 6,000 million loan from a Russian state-owned bank, which acted as an agent of major foreign bank, with maturity in 2011 and annual interest rate at LIBOR plus 3%. The Company has assigned the right for its accounts receivable on export sales contract (see Note 24) in the amount of current payments according to the loan repayment schedule. Loan proceeds received were used for repayment of loans, which were received for financing the acquisition of OJSC Yuganskneftegaz (see Note 17).

In April 2005, the Company obtained a US$ 465 million loan from a Russian state-owned bank for a 5 year period to refinance the liability on loans received for OJSC Yuganskneftegaz acquisition (see Note 17). This loan bears interest rate from LIBOR (three month) plus 2.75 up to LIBOR (three month) plus 3.5% annually and is pledged by promissory notes and accounts receivable for future oil sales.

On May 19, 2005 OJSC Northern Oil became the winner in tender for right of geological research, exploratory works and oil production on Vorgamusiurskoe oil and gas field in Inta region in Komi Republic. Company offered the amount of RUR 3,750 million (US$ 133.9 million at the exchange rate as of December 31, 2004) for the rights on this field.

In June 2005, the Company's shareholder transferred 100% of its shares in the share capital of the Company to OJSC Rosneftegaz, 100% of which is owned by the Russian Federation.

Supplemental Oil and Gas Disclosure (unaudited)

In accordance with SFAS 69 *"Disclosures about Oil and Gas Producing Activities"*, the Company is making certain supplemental disclosures about its oil and gas exploration and production operations. While this information was developed with reasonable care and disclosed in good faith, it is emphasized that some of the data is necessarily imprecise and represents only approximate amounts because of the subjective judgments involved in developing such information. Accordingly, this information may not necessarily represent the current financial condition of the Company or its expected future results. All the Company's activities are conducted in Russia, which is considered as one geographic area.

Capitalized costs relating to oil and gas producing activities

	2004	2003
Proved oil and gas properties	**$ 17,731,789**	$ 5,432,676
Unproved oil and gas properties	**1,041,023**	265,997
Total proved and unproved properties	**18,722,812**	5,698,673
Accumulated depreciation, depletion and amortization, and valuation allowances	**(2,434,543)**	(2,517,460)
Net capitalized costs	**$ 16,338,269**	$ 3,181,213

The share of the Company in the capitalized costs of equity investees was immaterial during 2004 and 2003.

Cost incurred in oil and gas property acquisition, exploration and development activities

	2004	2003
Acquisition of proved oil and gas properties	**$ 8,421,919**	$ 412,786
Acquisition of unproved oil and gas properties	**1,045,063**	286,176
Exploration costs	**50,941**	18,470
Development costs	**724,829**	536,399
Total costs incurred	**$ 10,242,752**	$ 1,253,831

None of the above costs relates to the Company's share in PSA Sakhalin-1.

The share of the Company in acquisition, exploration and development expenditure of its equity investees in 2004 and 2003 was not significant.

Supplemental Oil and Gas Disclosure (unaudited) (continued)

Results of operation for producing activities

	2004	**2003**
Revenues:		
Sales	**$ 2,735,006**	$ 1,714,315
Transfers	**59,838**	133,532
Total revenues	**2,794,844**	1,847,847
Production costs (excluding production taxes)	**586,320**	354,818
Exploratory expense	**50,941**	18,470
Depreciation, depletion and amortization	**236,436**	246,460
Taxes other than income tax	**1,272,170**	802,095
Income tax	**178,630**	119,167
Results of operation for producing activities	**$ 470,347**	$ 306,837

Crude oil transfer represents crude oil transfer for processing to the Company's subsidiaries. Such prices are valued at domestic market prices for crude oil.

Share of the Company in results of operations for oil and gas production by the entities consolidated by equity method was not significant.

Reserve quantity information

As of December 31, 2004 and 2003 the Company used the oil and gas reserve information in accordance with US GAAP, prepared by DeGolyer & MacNaughton, independent reservoir engineers. Proved reserves are those quantities of crude oil, natural gas and gas liquids, which, upon analysis of geologic and engineering data, appear with reasonable certainty to be recoverable in the future from known reservoirs under existing economic and operating conditions. Proved reserves also include additional oil and gas reserves that will be extracted after the expiry date of the license agreements or may be discovered as a result of secondary and tertiary extraction which have not been checked for recoverability and economic feasibility. Proved developed reserves are the quantities of reserves expected to be recovered through existing wells with existing equipment and operating methods. Due to the inherent uncertainties and the necessarily limited nature of reservoir data, estimates of reserves are subject to change as additional information becomes available.

The Company included in proved reserves those reserves which the Company intends to extract after the expiry of the current licenses. These licenses expire between 2005 and 2026, and the most important licenses expire between 2013 and 2019. In accordance with the law of Russian Federation "On Subsurface Resources" licenses for natural resources production are granted for a period of time, determined based on technological and economic criteria of natural resources field development, which guarantees rational mineral resource usage and necessary environmental protection. In accordance with this law upon gradual expiration of old licenses received under the previous version of "On Subsurface Resources" law the Company will be extending the licenses for the full period of field development. Extending the licenses dependent on current and future compliance with the terms of the licenses. The Company to-date complied with all such terms and intends to continue complying with license terms in the future.

Supplemental Oil and Gas Disclosure (unaudited) (continued)

Reserve quantity information (continued)

The Company's estimates of net proved oil and gas reserves and changes thereto for the years ended December 31, 2004 and 2003 are shown in the table set out below (oil production data was recalculated from ton to barrel using the 7.3 ratio, gas production data was recalculated using the 35.3/6 ratio):

	2004	**2003**
	'000 bbl's	*'000 bbl's*
Beginning of year reserves	**3,348,815**	3,399,604
Extensions and revisions of previous estimates	**329,058**	(292,736)
Property acquisition	**9,216,347**	375,127
Production	**(147,959)**	(133,180)
End of year reserves	**12,746,261**	3,348,815
Proved developed reserves	**8,348,386**	2,304,250
Minority interest in total proved reserves	**2,750,005**	603,084
Minority interest in proved developed reserves	**1,846,417**	467,969

Minority interest in proved developed and total proved reserves mainly relates to OJSC Yuganskneftegaz.

Increase in Property acquisition primarily relates to proved reserves of OJSC Yuganskneftegaz. In 2004 OJSC Yuganskneftegaz oil production was 378 million barrels.

According to the DeGolyer & MacNaughton report as of December 31, 2004 proved oil reserves of LLC Eniseineft (refer to Note 4). are 272,0 million barrels.

The share of the Company in the total proved oil and gas reserves of its equity investments as of December 31, 2004 is the following:

- 37,054 thousand barrels in PLC
- 10,337 thousand barrels in SPA Sahalin-1

as of December 31, 2003 is the following:

- 44,450 thousand barrels in PLC

Increase in production mainly is due to the production from new wells on Val Gamburtsev oil field and Bagan oil field (OJSC Northern Oil).

Supplemental Oil and Gas Disclosure (unaudited) (continued)

Standardized measure of discounted future net cash flows and changes therein relating to proved oil and gas reserves

The standardized measure of discounted future net cash flows, related to above oil and gas reserves, is calculated in accordance with the requirements of SFAS 69. Estimated future cash inflows from production are computed by applying year-end prices for oil and gas to year-end quantities of estimated proved reserves. Adjustment in this calculation for future price changes is limited to those required by contractual arrangements in existence at the end of each reporting period. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end proved reserves based on year-end cost indices, assuming continuation of year end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pre-tax cash flows, less the tax bases of related assets. Discounted future net cash flows have been calculated using a 10 % discount factor. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced.

The information provided in tables set out below does not represent management's estimate of the Company's expected future cash flows or of the value Group's proved oil and gas reserves. Estimates of proved reserves quantities are imprecise and change over time, as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The arbitrary valuation prescribed under SFAS 69 requires assumptions as to the timing and the amount of future development and production costs. The calculations should not be relied upon as an indication of the Company's future cash flows or of the value of its oil and gas reserves.

	2004	2003
Future cash inflows	**$ 214,886,524**	$ 51,707,953
Future development costs	**(7,182,553)**	(3,766,814)
Future production costs	**(94,289,848)**	(25,179,800)
Future income tax expenses	**(27,738,668)**	(5,673,325)
Future net cash flows	**86,675,455**	17,088,014
Discount of estimated timing of cash flows	**(56,499,128)**	(10,377,855)
Discounted future net cash flows	**$ 29,176,327**	$ 6,710,159

According to the DeGolyer & MacNaughton report as of December 31, 2004 discounted present value of future cash flow for proved oil and gas reserves of OJSC Yuganskneftegaz is US$ 22,143 million.

According to the DeGolyer & MacNaughton report as of December 31, 2004 discounted present value of future cash flow for proved oil and gas reserves of Eniseineft LLC is US$ 3,906 million.

Supplemental Oil and Gas Disclosure (unaudited) (continued)

Principal sources of changes in standardized measure of discounted future net cash flows

	2004	2003
Discounted present value as of beginning of year	**$ 6,710,159**	$ 6,660,869
Sales and transfers of oil and gas produced, net of production costs and taxes other than income taxes	**(885,413)**	(672,464)
Changes in price estimates	**1,165,529**	2,860,079
Changes in future development costs	**(2,924,934)**	(1,406,545)
Development costs incurred during the period	**724,829**	536,399
Revisions of previous quantity estimates	**414,935**	(432,643)
Net change in income taxes	**(499,513)**	(93,158)
Accretion of discount	**671,016**	666,087
Purchase of new oil and gas fields	**22,143,312**	873,331
Other	**1,656,407**	(2,281,796)
Discounted present value as of end of year	**$ 29,176,327**	$ 6,710,159

According to the DeGolyer & MacNaughton report as of December 31, 2004 discounted present value of future cash flow as of December 31, 2004 and 2003 includes the minority interest in the amount of US$ 6,438 million and US$ 1,223 million, respectively.