



ROSNEFT

OPEN JOINT STOCK COMPANY

CIL COMPANY

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS FOR THE YEARS ENDED 31 DECEMBER 2007, 2006 AND 2005.**

The following discussion of Rosneft's financial condition and results of operations is based on, and should be read in conjunction with, the Company's financial statements and the notes thereto for the periods ended 31 December 2007, 2006 and 2005 (the "Consolidated Financial Statements"). Such terms as "Rosneft," "Company" and "Group" in their different forms in this report mean OJSC Rosneft and its consolidated subsidiaries and affiliated companies. This report presents Rosneft's financial condition and results of operations on a consolidated basis. This report contains forward-looking statements that involve risks and uncertainties. Rosneft's actual results may differ materially from those discussed in such forward-looking statements as a result of various factors.

Except as otherwise indicated, all amounts are provided in millions of US dollars. All figures are rounded; however, the fluctuations in percentage are provided based on the actual data.

Overview

Rosneft is a vertically integrated oil and gas company with upstream and downstream operations located principally in Russia. Rosneft is the world's largest publicly traded oil company in terms of proved crude oil reserves and among the top ten in terms of crude oil production. According to DeGolyer and MacNaughton ("**D&M**"), Rosneft's independent reservoir engineers, as of 31 December 2007, on the basis of the standards set forth by the Society of Petroleum Engineers ("**SPE**"), Rosneft had proved reserves of approximately 21.70 billion barrels of oil equivalent ("**boe**"), including proved crude oil reserves of approximately 17.51 billion barrels (2.40 billion tonnes) and proved gas reserves of approximately 711.19 billion cubic metres ("**bcm**"). Also according to D&M, as of 31 December 2007, Rosneft had proved and probable crude oil reserves of approximately 27.96 billion barrels (3.83 billion tonnes) and proved and probable gas reserves of approximately 1,181.10 bcm. Rosneft's reserves are located in Western Siberia, the Russian Far East, Southern and Central Russia and Eastern Siberia. Rosneft also has significant prospective crude oil and gas resources in Western Siberia, the Russian Far East, which includes Sakhalin Island and the Kamchatka Peninsula, Southern Russia and Eastern Siberia.

In May 2007, Rosneft purchased additional reserves in Western and Eastern Siberia and in the Samara region as a result of auctions for the sale of certain exploration and production assets of OJSC Yukos ("**Yukos**") won by Rosneft's subsidiary Neft-Aktiv LLC ("**Neft-Aktiv**"). See "**—Significant Acquisitions—2007—Purchase of Yukos Assets.**" According to D&M, as of 31 December 2007, OJSC Samaraneftgaz ("**Samaraneftgaz**") had proved reserves of 0.97 billion boe, including 0.94 billion barrels of crude oil (0.13 billion tonnes) and 5.24 bcm of gas, and proved and probable reserves of 1.46 billion boe, including 1.41 billion barrels of crude oil (0.19 billion tonnes) and 8.56 bcm of gas.

According to D&M, as of 31 December 2007, OJSC Tomskneft ("**Tomskneft**") had proved reserves of 1.06 billion boe, including 0.97 billion barrels of crude oil (0.13 billion tonnes) and 14.51 bcm of gas, and proved and probable reserves of 1.89 billion boe, including 1.72 billion barrels of crude oil (0.23 billion tonnes) and 30.45 bcm of gas. On 27 December 2007, the Company sold 50% of Tomskneft to LLC Gazpromneftfinance ("**Gazpromneftfinance**"), a subsidiary of OJSC Gazprom Neft ("**Gazprom Neft**"). Rosneft accounts for Tomskneft using the equity method since the date of sale completion. Operating results of Tomskneft were fully consolidated into Rosneft's financial income statements in 2007 from the date of acquisition until December 27, 2007 (date of sale).

In the fourth quarter of 2007 and for 12 months ended 31 December 2007, Rosneft produced 2,233.41 thousand barrels of crude oil per day (28.1 million tonnes per quarter) and 2,027.31 thousand barrels of crude oil per day (101.16 million tonnes for 12 months), respectively. Rosneft produced 4.06 bcm of gas and 15.71 bcm of gas in the fourth quarter of 2007 and for 12 months ended 31 December 2007, respectively. In the fourth quarter of 2007 and for 12 months ended 31 December 2007 (during the period starting from the date of acquisition until the date of completion of sale), Tomskneft produced 233.37 thousand barrels of crude oil per day (2.78 million tonnes per quarter) and 232.84 thousand barrels of crude oil per day (7.42 million tonnes for the 12 months), respectively, and Samaraneftgaz produced 191,05 thousand barrels of crude oil per day (2.40 million tonnes per quarter) and 189.87 thousand barrels of crude oil per day (6.00 million tonnes for 12 months (starting from the date of acquisition), respectively. In addition, in the fourth quarter of 2007 and for 12 months ended 31 December 2007, Tomskneft produced 0.46 bcm and 1.01 bcm of gas (during the period starting from the date of acquisition until the date of completion of sale), respectively, Samaraneftgaz produced 0.08 bcm and 0.17 bcm of gas (starting from the date of acquisition), respectively.

In the fourth quarter of 2007 and for 12 months ended 31 December 2007, Rosneft sold approximately 56.3 % and 60.3 %, respectively, of the crude oil it produced or purchased from third parties to customers outside Russia, comprising both sales to the Commonwealth of Independent States ("**CIS**") and exports to international markets other than the CIS. Most of the remainder was refined in Russia at Rosneft's refineries, including OJSC Rosneft-Tuapse refinery ("**Tuapse refinery**") and OJSC Rosneft-Komsomolsk refinery ("**Komsomolsk refinery**"), as well as OJSC Angarsk Petrochemical Company ("**Angarsk refinery**"), OJSC Achinsk refinery ("**Achinsk refinery**"), OJSC Kuibyshev refinery ("**Kuibyshev refinery**"), OJSC NovoKuibyshev refinery ("**NovoKuibyshev refinery**") OJSC Syzran refinery ("**Syzran refinery**") and LLC Strezhevskoy refinery ("**Strezhevskoy refinery**"), formerly controlled by Yukos and acquired by Rosneft in May 2007. See "**—Significant Acquisitions—2007—Purchase of Yukos Assets.**" Rosneft sells the petroleum products produced by these refineries in international and domestic markets. Rosneft has an integrated production, transportation, refining and marketing strategy and seeks to maximise netbacks by optimising its product mix, sales destinations and available transport routes.

Rosneft's total revenues increased to US\$ 16,493 million in the fourth quarter of 2007 from US\$ 8,219 million in the fourth quarter of 2006 and to US\$ 49,216 million for 12 months ended 31 December 2007 from US\$ 33,099 million for 12 months ended 31 December 2006. These increases resulted primarily from increases in oil price and increase in sales volumes resulting from organic production growth and the acquisition of Yukos assets in April-August 2007. Rosneft's total revenue excluding estimated revenue from subsidiaries recently acquired from Yukos comprised US\$ 41,193 million for 12 months ended 31 December 2007. Rosneft's net income increased to US\$ 2,976 million in the fourth quarter of 2007 from US\$ 603 million in the fourth quarter of 2006 and to US\$ 12,862 million for 12 months ended 31 December 2007 from US\$ 3,533 million for 12 months ended 31 December 2006 as a result of increased production, improved margins and the income arising from Yukos bankruptcy proceeds (net of income tax effect) of US\$ 6,817 million received by Rosneft in June 2007. Rosneft's net income adjusted for Yukos bankruptcy proceeds and interest accrued in relation to OJSC Yuganskneftegaz ("**Yuganskneftegaz**") tax liabilities for 1999-2004 was US\$ 2,178 million in the fourth quarter of 2007 and US\$ 6,483 million for 12 months ended 31 December 2007.

Business Segments and Intersegment Sales

The Company operates primarily in the Russian Federation. As geographical regions of the Russian Federation have similar economic and legal characteristics, the Company does not present geographical segments separately. The Company also carries out projects outside Russia, including projects in Kazakhstan, Turkmenistan and Algeria. These projects are in the early stages and have had little to no impact to date on the financial condition or results of operations of the Company.

Business Segments

The activities of Rosneft are divided into two main business segments:

- *Exploration and production ("**upstream**")*. Geological exploration and development of fields, and crude oil and gas production;
- *Refining, marketing and distribution ("**downstream**")*. Refining of crude oil, as well as the purchase, transportation, sale and transshipment of crude oil and petroleum products.

Rosneft does not separate its distribution and transportation divisions into a "midstream" segment. These activities are reflected in the "downstream" segment. Other types of activities are incorporated in the "other activities" segment and include banking and financial services and drilling and construction services provided to third parties.

Intersegment Sales and Segment Presentation

Rosneft's two main business segments are interconnected: the majority of the revenues of one main segment is included in the expenses of the other main segment. In particular, the holding company, OJSC Oil Company Rosneft, buys crude oil from its production subsidiaries, part of which it sells in and outside Russia and the remainder of which it delivers to its proprietary or third-party refineries in Russia for processing. Petroleum products are then either sold by the holding company through wholesale sales on the international or domestic markets or sold to the Company's marketing and transshipment Business Units (as defined below) and subsidiaries for subsequent wholesale and retail sale in Russia. Following the share swap (the "**Share Swap**") (see "**—Development of Rosneft—Consolidation via Share Swap**" below), the Company became the producer and owner of the crude oil previously produced by the merged subsidiaries.

It is difficult to determine market prices for crude oil in the Russian domestic market, mainly due to the significant intragroup turnover within the vertically integrated oil companies that dominate the market. Moreover, to the extent they exist, crude oil market prices in Russia can be significantly lower than they might otherwise be due to seasonal oversupply and regional imbalances. Prior to the Share Swap in 2006, transaction prices for crude oil between Rosneft's subsidiaries were established taking into consideration market prices and transportation costs, but were also affected to a considerable degree by the capital investment requirements of different enterprises within the upstream segment. Accordingly, an analysis of individual segments in isolation from the analysis of other activities may present a distorted view of Rosneft's financial and operating performance. For this reason, the Company's management does not analyse each main business segment in isolation. The Company does, however, provide financial data by segment in Note 24 to the Consolidated Financial Statements.

On 1 October 2006, twelve subsidiaries, Yuganskneftegaz, OJSC Purneftegaz ("**Purneftegaz**"), OJSC Selkupneftegaz, OJSC Severnaya Neft ("**Severnaya Neft**"), OJSC Krasnodarneftegaz ("**Krasnodarneftegaz**"), OJSC Stavropolneftegaz, OJSC Sakhalinmorneftegaz, OJSC Komsomolsk refinery,

OJSC Tuapse refinery, OJSC Arkhangelsknefteprodukt, OJSC Nakhodkanefteprodukt and OJSC Tuapsenefteprodukt (the “**Merged Subsidiaries**”) were merged into the Company by means of the Share Swap. Following the merger, the Company became the legal successor to the rights and obligations of the Merged Subsidiaries to the extent provided by Russian law. The Company leases the business units, which are the assets previously owned by the Merged Subsidiaries (the “**Business Units**”), to wholly owned subsidiaries of the Company, which are limited liability operating and service companies each corresponding to a Merged Subsidiary and which operate these assets under service agreements. Revenues and costs from operations of the seven Merged Subsidiaries previously engaged in exploration and production were and continue to be accounted for under the upstream segment. Revenues and costs from operations of the five Merged Subsidiaries previously involved in refining and marketing were and continue to be accounted for under the downstream segment.

Significant Acquisitions

2007

Purchase of Yukos Assets

In April-August 2007, Rosneft acquired upstream, downstream and other assets of Yukos through auctions held in connection with Yukos’ bankruptcy proceedings. Rosneft also acquired in June-July 2007 further Yukos assets from the winners of other Yukos auctions. Rosneft paid approximately RUB 687.7 billion (US\$ 26.6 billion) in aggregate for the Yukos assets, shares in various companies and promissory notes of Yuganskneftegaz it acquired in the auctions and thereafter (including US\$ 7.65 billion for 9.44% of shares in the Company and promissory notes of Yuganskneftegaz) and borrowed approximately US\$ 22.0 billion to help finance these acquisitions. Based on the preliminary allocation of the purchase price in the acquisitions accounted for as business combination (subject to adjustment in subsequent periods), total goodwill in the amount of US\$ 4.37 billion is attributed to the downstream segment (US\$ 2.92 billion), as well as to the upstream segment (US\$ 1.45 billion), both of which Rosneft expects will benefit from synergies resulting from the acquisitions.

Rosneft received approximately US\$ 11.5 billion (including proceeds received by subsidiaries recently acquired from Yukos) in June and December 2007 as a Yukos creditor, out of which US\$ 9.2 billion have been used to repay the US\$ 22.0 billion in Company borrowings referred to above. Rosneft received US\$ 3.4 billion as an advance payment following the agreement to sell 50% of Tomskneft in late June 2007. The advance payment was used by Rosneft to help finance the acquisition of new assets.

Results of Tomskneft for 12 months ended 31 December 2007 were fully consolidated into Rosneft’s statement of income from the date of acquisition until December 27, 2007 (date of completion of sale).

On 27 December 2007, the Company sold 50% of Tomskneft and certain other related assets to Gazpromneftfinance, a subsidiary of Gazpromneft. Before the completion of Tomskneft sale transaction Neft-Aktiv sold to Tomskneft the shares in LLC “Property- Service- Strezhevskoy”, OJSC “NPF “Geofit”, OJSC “Tomskneftgeophysika”, OJSC “Tomsk Research and Development University of Gas and Oil of Eastern Oil Company”, LLC “Outsourcing”, LLC “MNU”, LLC “Strezhevskoy NPZ”, LLC “Entertainment and sport center” and LLC “EPU-Service”.

The Tomskneft sale net of tax (US\$ 285 million) generated a gain of US\$ 1,745 million, such gain included in Rosneft additional paid in capital since the transaction was performed with a related party under common control.

Right and Receivables

On 15 August 2007, Rosneft won the auction for the sale of Yukos’ accounts receivables, including accounts receivable of Rosneft group companies such as Tomskneft and Samaraneftgaz, loans receivable, and other receivables. Rosneft purchased these assets for a total consideration of RUB 11.56 billion (US\$ 0.45 billion at the CBR exchange rate in effect as at the date of the payment).

Transportation assets

On 8 August 2007, Rosneft won the auction for the sale of Yukos' transportation assets and other property and property rights relating to upstream segment. Rosneft purchased these assets for a total consideration of RUB 18.58 billion (US\$ 0.72 billion at the CBR exchange rate in effect as at the date of the payment).

Equipment and Geological Information

On July 12, 2007 the Company won an auction for the sale of certain assets which primarily include property, plant and equipment, as well as licences related to the exploration and production of crude oil in Western and Eastern Siberia and in the Samara regions of the Russian Federation. The acquisition price amounted to RUB 5.8 billion (US\$ 229 million at the CBR exchange rate as of the dates of acquisitions).

Southern Russia Marketing and Power Generation Assets

On 2 July 2007, Neft-Aktiv purchased marketing and power generation companies formerly owned by Yukos and located in Southern Russia through auctions for sale of these assets after the initial winning bidder was disqualified. Neft-Aktiv purchased these assets for a total consideration of RUB 4.90 billion (US\$ 0.19 billion at the CBR exchange rate in effect as at the transaction date).

Marketing and Management Assets

In late June 2007, Neft-Aktiv purchased from LLC Prana various working capital, real estate, marketing and management assets formerly owned by Yukos, including LLC Yukos-M Trading House ("**Yukos-M Trading House**"). Rosneft and Neft-Aktiv purchased these assets for a total consideration of RUB 87.58 billion (US\$ 3.38 billion at the CBR exchange rate in effect as at the transaction date).

European Russia Downstream Assets

On 15 June 2007, Neft-Aktiv purchased from LLC Unitex retail and small wholesale marketing assets formerly owned by Yukos and located in European Russia. Neft-Aktiv purchased these assets for a total consideration of RUB 16.32 billion (US\$ 0.63 billion at the CBR exchange rate in effect as at the transaction date).

Upstream Service and IT Companies

On 16 May 2007, Neft-Aktiv won the auction for the sale of certain upstream services and information technology companies of Yukos. Neft-Aktiv purchased these assets for a total consideration of RUB 1.80 billion (US\$ 0.07 billion at the CBR exchange rate in effect as at the date of the payment).

Samara Upstream and Downstream Assets

On 10 May 2007, Neft-Aktiv won the auction for the sale of certain exploration and production, and refining and marketing assets of Yukos in the Samara region. Neft-Aktiv purchased these assets for a total consideration of RUB 165.53 billion (US\$ 6.42 billion at the CBR exchange rate in effect as at the date of the payment).

Western and Eastern Siberia Upstream and Downstream Assets

On 3 May 2007, Neft-Aktiv won the auction for the sale of certain assets of Yukos. These assets comprise shares in various exploration and production and refining and marketing companies in Western and Eastern Siberia. Neft-Aktiv purchased these assets for a total consideration of RUB 175.70 billion (US\$ 6.82 billion at the CBR exchange rate in effect as at the date of the payment).

Yuganskneftegaz Service Companies

On 18 April 2007, Neft-Aktiv won the auction for the sale of certain service companies of Yuganskneftegaz, previously owned by Yukos. Neft-Aktiv purchased these assets for a total consideration of RUB 1.03 billion (US\$ 0.04 billion at the CBR exchange rate in effect as at the date of the payment).

Treasury Stock

On 27 March 2007, RN-Razvitie LLC ("**RN-Razvitie**"), a wholly owned subsidiary of the Company, won the tender for the purchase of 9.44% of the share capital of the Company and promissory notes of Yuganskneftegaz having a face value of RUB 3,558 million (US\$ 138 million at the CBR exchange rate in effect as at the date of the payment) from Yukos for a total consideration of RUB 197.84 billion (US\$ 7.65 billion at the CBR exchange rate in effect as at the date of the payment). For the purposes of Rosneft's consolidated financial statements, the total aggregate consideration for the acquired assets was allocated to the

assets acquired on a pro rata basis to their respective fair values and amounted to RUB 194.05 billion for the Company's shares, or RUB 194.05 per share (US\$ 7.52 billion, or US\$ 7.52 per share, at the CBR exchange rate in effect as at the date of the transaction). Title to the shares and promissory notes was transferred to RN-Razvitie on 17 April 2007.

Financing of the Purchases

In March 2007, the Company and its wholly owned subsidiary RN-Razvitie entered into loan agreements with a syndicate of international banks. The agreements provided for US\$ 22 billion of borrowings, the longest tranche of which had a maximum eighteen-month term. These loan agreements bear interest at the London inter-bank offered rate ("**LIBOR**") plus 0.25-0.50% per annum, depending on the final repayment date. These loans were drawn to finance the purchase of the treasury stock and other Yukos assets in the course of auctions described above. The total amount of US\$ 22.0 billion was drawn down through May 2007.

In June and October 2007, Rosneft received nearly US\$ 11.5 billion (including proceeds received by subsidiaries recently acquired from Yukos) as a Yukos creditor, out of which US\$ 9.2 billion has been used as prepayment to reduce the US\$ 22.0 billion in Company borrowings referred to above.. See "**—Liquidity and Capital Resources—Debt Obligations.**"

In June 2007 the Company received US\$ 3.4 billion advance payment for the sale of 50% of Tomskneft shares. Neft-Aktiv sold 50% of Tomskneft shares to Gazpromneftfinance, a subsidiary of Gazprom neft. Rosneft accounts for Tomskneft using an equity method since the date of completion of sale. Advance payment received by Rosneft was used to help finance the acquisition of Yukos assets. The assets received from Yukos bankruptcy proceedings were used for borrowing payments.

Other Significant Acquisitions

Other Significant Acquisitions Prior to 31 December 2007

Fuelling Stations in the Moscow Region

In September 2007, Rosneft International Limited, a wholly owned subsidiary of the Company, purchased 100% of shares of Oxoil Limited (Cyprus) for US\$ 42 million. Oxoil Limited owns through its subsidiaries, CJSC PARKoil and LLC PARK-Service, a network of 13 fuelling stations in Moscow region.

In August 2007, Rosneft International Limited purchased 100% of shares of OJSC JV Antares ("**JV Antares**") for US\$ 55 million. JV Antares owns a network of 20 fuelling stations and a tank farm in the Moscow region.

Fuelling Stations in the Stavropol Region

In August 2007, OJSC NK Rosneft-Stavropolye, a wholly owned subsidiary of the Company, bought 100% of shares of LLC Rokada-Market for RUB 1,482 million (US\$ 57.8 million at the CBR exchange rate as of the transaction date), the owner of a network of 29 fuelling stations and an oil tank farm in the Stavropol region.

Vlakra

In late June 2007, the Company acquired 50% of the ordinary shares of CJSC Vlakra for a total cash consideration of US\$ 108 million. The acquisition price was fully allocated to the fair value of the acquired assets and liabilities. CJSC Vlakra is a joint venture between Rosneft and foreign participant for which the Company accounts using the equity method. CJSC Vlakra's main activity is to lease office premises in Moscow.

Yukos-Mamontovo

On 3 April 2007, the Company received the title to 100% interest in CJSC Yukos-Mamontovo ("**Yukos-Mamontovo**") for no consideration. The title to this asset was transferred in accordance with the court ruling of the Moscow Arbitration Court. This interest was accounted for as a revision to the original accounting of the purchase of Yuganskneftegaz and had no material effect on the Consolidated Financial Statements. Yukos-Mamontovo owns wells and service facilities leased by Yuganskneftegaz and used in crude oil production.

Verkhnechonskneftegaz

In January 2007, the Company purchased 339,582 newly issued ordinary shares of OJSC Verkhnechonskneftegaz, an exploration and production company, for a total consideration of RUB 201 million (US\$ 8 million at the CBR exchange rate in effect as at the transaction date). In December 2007, the Company purchased 237,572 newly issued ordinary shares of OJSC Verkhnechonskneftegaz for a total consideration of RUB 285 million (US\$ 11.7 million at the CBR exchange rate in effect as at the transaction date). As a result, the Company maintained its 25.94% share in this company.. The other shareholders of OJSC Verkhnechonskneftegaz are OJSC TNK-BP (“**TNK-BP**”) holding 68.36%, OJSC East Siberian Gas Company holding 5.64% and other minority shareholders holding the remaining 0.06%.

Ohinskaya TETS

In April 2007, the Company purchased 9,876,869 newly issued ordinary shares of OJSC Ohinskaya TETS (“**Ohinskaya TETS**”) for a total consideration of RUB 112 million (US\$ 4 million at the CBR exchange rate in effect as at the transaction date). As a result, the Company increased its share in Ohinskaya TETS to 87.52%.

In January 2007, the Company purchased 85.61% of the ordinary shares of Ohinskaya TETS for RUB 629 million (US\$ 24 million at the CBR exchange rate in effect as at the transaction date). Ohinskaya TETS is a combined heat and power station mainly servicing the production activities of RN-Sakhalinmorneftegaz LLC, one of the Company’s exploration and production wholly owned operating and service companies.

Truboprovodny Consortium Burgas-Alexandroupolis

In January 2007, the Company participated in the creation of a joint venture, LLC Truboprovodny Consortium Burgas-Alexandroupolis, with equal equity contributions from the Company, OJSC AK Transneft (“**Transneft**”) and Gazprom Neft. This joint venture was registered with a share capital of RUB 9 million (US\$ 0.4 million at the CBR exchange rate in effect as at the registration date). The joint venture will design, construct and operate oil terminals in Burgas (Bulgaria) and Alexandroupolis (Greece), which will be connected by a pipeline crossing the territories of Greece and Bulgaria. The Company has no funding commitments in connection with this joint venture.

E&P Vankor Ltd

In October 2007, Anglo Siberian Oil Company Limited, the Company’s wholly owned indirect subsidiary, bought 100% of the shares of E&P Vankor Ltd for US\$ 88 million. E&P Vankor Ltd is the beneficiary of a successful legal claim against Anglo Siberian Oil Company Limited. The Company has accrued US\$ 134 million in respect of this claim as of December 31, 2006. E&P Vankor Ltd does not own any other significant assets and has no liabilities other than a related tax liability of US\$ 46 million. Accordingly this transaction has been accounted for as an asset acquisition.

Other Significant Acquisitions after 31 December 2007

In January 2008, one of the Company's subsidiaries acquired through an auction sale a right for a three-year lease of nine land plots in Saint Petersburg for the total consideration of US\$ 4.2 million (RUB 103.0 million at the CBR exchange rate as of December 31, 2007). The above land plots will be used for construction of gas stations.

2006

Exponeft

In December 2006, OJSC NK Rosneft-Murmansknefteproduct, a subsidiary of Rosneft, , purchased 100% of CJSC Exponeft for a total consideration of RUB 335 million (US\$ 13 million at the CBR exchange rate in effect as at the transaction date). CJSC Exponeft owns a network of filling stations in the Murmansk region.

Nefteport

In June 2006, the Company purchased 97.51% of the shares of Nakhodka Oil Seatrade Port (“**Nefteport**”) for RUB 528 million (US\$ 19.5 million at the CBR exchange rate in effect as at the settlement date). The acquisition resulted in US\$ 10 million of goodwill, which is attributed to synergies expected to result from the integration of Nefteport with the operations of the Company’s subsidiary LLC Nakhodkanefteprodukt.

Nefteport is one of the largest commercial trade seaports on Russia's Pacific coast located in Novitsky Bay on the west side of the Nakhodka Gulf. Nefteport has now been integrated into Rosneft's technological and infrastructural chain for the storage and transshipment of oil products, enabling Rosneft to establish a single self-contained industrial complex in the Nakhodka Gulf, which the Company believes is one of the largest of its kind in Russia.

Udmurtneft

On 28 April 2006, the Company and China Petrochemical Corporation ("**Sinopec**") entered into an option agreement granting the Company an option to purchase a controlling interest in OJSC Udmurtneft ("**Udmurtneft**") if Sinopec were to win the tender for purchasing 96.86% of Udmurtneft's shares from TNK-BP, or its affiliate. In June 2006, TNK-BP announced its decision to sell 96.86% of Udmurtneft's shares to Sinopec. Sinopec completed the purchase of Udmurtneft on 10 August 2006 from an affiliate of TNK-BP. In July 2006, Sinopec created Taihu Ltd. ("**Taihu**"), of which the Company owns 51% since November 2006 through its wholly owned subsidiary, Rosneft International Ltd., and Sinopec owns 49% through its wholly owned subsidiary, Sinopec Overseas Oil and Gas Ltd (**SOOGL**). CJSC Promleasing ("**Promleasing**"), a wholly owned subsidiary of Taihu, purchased 96.86% of Udmurtneft's shares in December 2006 from Sinopec. Pursuant to a shareholder agreement entered into between the Company and Sinopec with respect to Taihu, key decisions regarding its business shall be subject to the unanimous approval by both participants and neither of the participants has a preferential voting right. As a result, the Company accounted for this investment using the equity method from December 2006. On 13 November 2006, Bank of China provided a credit facility to Taihu in the amount of up to US\$ 3.72 billion for financing the purchase of the 96.86% stake in Udmurtneft and the additional 3.14% shares from minority shareholders of Udmurtneft. As a result of a mandatory offer to minority shareholders of Udmurtneft, Company's stake in Udmurtneft increased to 97.08%. The cash flows of Udmurtneft will be used directly to repay this financing.

Repayment of Carried Interest in Sakhalin-1 Joint Venture

In February 2001, the Company entered into a sale and purchase agreement with Oil and Natural Gas Corporation Videsh Ltd. ("**Videsh**") in relation to the Company's interest in the Sakhalin-1 production sharing agreement ("**PSA**"), which reduced the Company's interest in the project to 20%. The Company recorded the investment in its retained share under the "carried interest" method. Commercial hydrocarbon production under the Sakhalin-1 PSA commenced in October 2005. Accordingly, the Company's share in Sakhalin-1 hydrocarbon reserves was reclassified to proved developed reserves.

On 31 July 2006, the Company repaid US\$ 1,339 million (including accumulated interest) to Videsh with respect to the Company's costs carried by Videsh in previous years. Following this repayment, the Company recovered the right to receive its *pro rata* income in the Sakhalin-1 project. Rosneft accounts for this investment using the proportionate consolidation method. Of the total amount repaid, US\$ 1,328 million was recorded as an addition to oil and gas property as of 31 December 2006 and effectively treated as capital expenditures.

Development of Rosneft

Increased Stakes in Subsidiaries

2006

VBRR

In July 2006, the Company purchased 25.49% of the common shares in OJSC Vserossiysky Bank Razvitiya Regionov ("**VBRR**"), a Russian full service bank, thereby increasing its stake in the common shares of VBRR from 50.98% to 76.47%. The purchase price was RUB 333 million (US\$ 12 million at the CBR exchange rate in effect as at the settlement date).

Daltransgaz

In February 2006, the Company purchased 25% *pro rata* share of an additional issue of shares in OJSC Daltransgaz, a company operating an independent pipeline system, for RUB 722 million (US\$ 26 million at the CBR exchange rate in effect as at the settlement date), thus maintaining its share at 25% plus one share.

In August 2006, the Company purchased 25% *pro rata* share of an additional issue of shares by OJSC Daltransgaz for RUB 525 million (US\$ 19 million at the CBR exchange rate in effect as at the settlement date), thus maintaining its stake at 25% plus one share.

Tuapsenefteprodukt

In January 2006, the Company purchased 39.26% of the common shares (30.24% of the share capital) in OJSC Rosneft-Tuapsenefteprodukt, a company providing transshipment services for crude oil and petroleum products, increasing its stake in the common shares from 50.67% to 89.93% and in the total share capital from 38.00% to 68.24%. The purchase price was RUB 2,835 million (US\$ 100 million at the CBR exchange rate in effect as at the settlement date). The purchase resulted in US\$ 34 million of goodwill, attributed to the estimated benefits arising from obtaining over 75% of voting shares in this company.

Corporate Restructuring

RN-Burenie

In March 2006, the Company created LLC RN-Burenie (“**RN-Burenie**”) following the Board of Directors’ decision to optimise the Company’s service arrangements. During the second quarter of 2006, drilling and other supporting assets were transferred from upstream subsidiaries to RN-Burenie. In the fourth quarter of 2006, the drilling divisions of the Company, namely LLC PNG-Burenie, LLC KNG-Burenie and LLC KNG-Sibir, were merged into LLC RN-Burenie.

Consolidation via Share Swap

Until the autumn of 2006, the Merged Subsidiaries had significant minority interests. See “—Results of Operations—Minority Interest in Subsidiaries’ Earnings.” On 1 October 2006, the Company exchanged 1,220,939,458 newly issued ordinary shares (11.52% of the Company’s share capital) for shares of the Merged Subsidiaries held by third parties at specified exchange ratios and as approved by the respective shareholders. These subsidiaries were then merged into the Company. The Share Swap has been accounted for as a purchase. The fair value of the purchase consideration, which is the Company’s ordinary shares issued for purposes of the Share Swap, was determined based on the market value of the Company’s shares as of the closest date prior to the Share Swap and amounted to US\$ 9,218 million. The excess of the fair value of the shares issued over the fair value of minority interests purchased in the amount of US\$ 69 million has been reflected as goodwill and relates to the refining, marketing and distribution segment. The Company attributes this goodwill to the synergies resulting from the merger. The majority of the purchase price was allocated to oil and gas properties, property, plant and equipment and mineral rights. Where the fair value of the net assets purchased exceeded the purchase price, negative goodwill existed, which reduced on a *pro rata* basis the amounts assigned to the long-term assets purchased.

As a result of the merger following the Share Swap, all licences for the development and production of hydrocarbons previously held by the Merged Subsidiaries operating in the exploration and production segment were transferred to the Company.

Licences Won at Auctions

The Company won a number of auctions for licences for exploration, development and production of crude oil and gas.

In the first quarter of 2008 the Company won an auction for the right to explore and produce hydrocarbons in Umotkinskiy Block located in the Irkutsk region. The total consideration amounted to RUB 1.12 billion (US\$ 46 million at the CBR exchange rate as of December 31, 2007) and was paid in cash.

2007

Ugno-teplovsky block

In December 2007, the Company won an auction for a licence for the exploration, development and production of crude oil and gas in the Ugno-teplovsky block. The total cost of the licence amounted to RUB 147 million (US\$ 60 million at the CBR exchange rate in effect as at the auction date). The licence was granted in December 2007 and expires in December 2032.

Preobrazhenskiy block

In July 2007, the Company won an auction for a licence for the exploration, development and production of crude oil and gas in the Preobrazhenskiy block in the Irkutsk Region. The total cost of the licence amounted to RUB 928 million (US\$ 36 million at the CBR exchange rate in effect as at the auction date). The licence was granted in October 2007 and expires in September 2032.

Zapadno-Chonsky and Verhneichersky block

In July 2007, LLC Vostok-Energy, a joint venture of which the Company owns 51% and China National Petroleum Corporation (“CNPC”) owns 49%, won an auction for licences for the exploration, development and production of crude oil and gas in the Zapadno-Chonsky and Verhneichersky blocks in the Irkutsk region, at approximately 90-120 kilometres from the Eastern Siberia Pacific Ocean pipeline that Transneft plans to construct. The cost of the Zapadno-Chonsky licence was RUB 399.5 million (US\$ 16 million at the CBR exchange rate in effect as at the auction date) and the cost of the Verhneichersky licence was RUB 780.0 million (US\$ 30 million at the CBR exchange rate in effect as at the auction date). The licences were granted in October 2007 and expire in September 2032.

Sovetsky and Biryukovsky Blocks

In June 2007, Samaraneftegaz, a wholly owned subsidiary of the Company, won an auction for licences for the exploration and production of crude oil and gas in the Sovetsky and Biryukovsky blocks in the Samara region. The total cost of the licences amounted to RUB 932 million (US\$ 36 million at the CBR exchange rate in effect as at the auction date). The licences were granted in June 2007 and expire in June 2027 and 2032, respectively.

2006

Kulindinsky Block

In August 2006, the Company won an auction for a licence for the exploration and production of crude oil and gas in the Kulindinsky block in the Krasnoyarsk territory (previously the Evenkiysk autonomous district). The total cost of the licence amounted to RUB 1,561 million (US\$ 59 million at the CBR exchange rate in effect as at the settlement date). The Kulindinsky block is located in the Tungus-Chusk region in the South-Eastern part of the Krasnoyarsk territory. The Company expects to benefit from synergies arising from the development of the Kulindinsky and Sanarsky blocks. The licence was granted in November 2006 and expires in December 2031.

North Charsky Block

In July 2006, Rosneft won an auction for a licence for the exploration and production of crude oil and gas in the North Charsky block located at the border of Taymir and Yamalo-Nenetsk autonomous districts. The total cost of the licence was RUB 4,730 million (US\$ 177 million at the CBR exchange rate in effect as at the settlement date). This purchase brought Rosneft’s total number of licences at the Vankorskoye field in Eastern Siberia to 14. The licence was granted in August 2006 and expires in August 2031.

Osoveysky Block

In July 2006, the Company won an auction for a licence for the exploration and production of crude oil and gas in the Osoveysky block in the Yamalo-Nenetsk autonomous district, which is in close proximity to the developed Cherpayskoye, Khasyreiskoye and Nyadeiyuskoye fields in the Yamalo-Nenetsk autonomous district. The total cost of the licence was RUB 2,250 million (US\$ 84 million at the CBR exchange rate in effect as at the settlement date). The licence was granted in September 2006 and expires in August 2026.

Danilovsky Block

In June 2006, the Company won an auction for a licence for the exploration and production of crude oil and gas in the Danilovsky block in the Irkutsk region. The total cost of the licence was RUB 1,210 million (US\$ 45 million at the CBR exchange rate in effect as at the settlement date). The licence was granted in August 2006 and expires in August 2031.

Mogdinsky and Sanarsky Blocks

In April 2006, the Company won an auction for licences for the exploration and production of crude oil and gas in the Mogdinsky and Sanarsky blocks in the Irkutsk region. The total cost of the licences was RUB 2,523 million (US\$ 94 million at the CBR exchange rate in effect as at the settlement date). These blocks

are located in close proximity to the Verkhnechonskoye field, currently under development, allowing for reduced development costs, should commercial volumes of hydrocarbons be discovered, through the share of certain infrastructure with the Verkhnechonskoye field. The licences were granted in July 2006 and expire in June 2031.

East Sugdinsky Block

In March 2006, the Company obtained a licence for the exploration and production of crude oil and gas in the East Sugdinsky block as a result of an auction won in December 2005. The total cost of the licence was RUB 7,470 million, of which RUB 300 million (US\$ 10 million at the CBR exchange rate in effect as at the payment date) was paid in December 2005 in the form of an auction fee and the remaining consideration of RUB 7,170 million (US\$ 258 million at the CBR exchange rate in effect as at the payment date) was paid in 2006. The licence was granted in March 2006 and expires in February 2031.

Tukolandsky, Vadinsky and Pedomayakhsky Blocks

In February 2006, the Company won auctions for licences for the exploration and production of crude oil and gas in the Tukolandsky, Vadinsky and Pedomayakhsky blocks in the Krasnoyarsk territory. The total cost of the licences amounted to RUB 5,377 million (US\$ 199 million at the CBR exchange rate in effect as at the payment date). These blocks are located in close proximity to the Vankorskoye field, which Rosneft started to develop in 2003. Consequently, they will be able to share certain infrastructure with the Vankorskoye field, thereby reducing development costs should commercial volumes of hydrocarbons be discovered. The licences were granted in May 2006 and expire in April 2031.

Memorandum of Understanding with Sibur

On 25 June 2007, Rosneft entered into a memorandum of understanding with OJSC Sibur on the processing, marketing and sale of associated gas. The memorandum provides for the establishment of a joint venture, on an equal basis, which will own the Yuzhno-Balyksk gas processing plant, currently owned by OJSC Sibur. Under the agreement, Yuganskneftegaz will provide associated gas to the Yuzhno-Balyksk gas processing plant for processing. Each party will be entitled to 50% of the total associated gas once processed. The parties intend to increase the processing of associated gas to 3 bcm per year by 2010, with the option to process additional associated gas should gas production at Rosneft's fields rise. The Yuzhno-Balyksk gas processing plant currently processes 1.5 bcm of associated gas produced at Yuganskneftegaz' fields.

Shareholder and Operating Agreement with Sinopec on Sakhalin-3

On 26 March 2007, the Company and Sinopec entered into a shareholder and operating agreement for the exploration and development of a portion of the Veninsky block on the shelf of the Sakhalin Island (the "**Sakhalin-3 Project**"). In September-October 2007, in accordance with this agreement, a wholly owned subsidiary of Sinopec, Sinopec Overseas Oil and Gas Ltd., acquired the shares in Venin Holding Ltd., which was established by a wholly owned subsidiary of the Company, Rosneft International Ltd., in October 2006. Venin Holding Ltd. in turn became the sole shareholder of LLC Veninneft, the licence owner and operator of the Sakhalin-3 Project. Rosneft holds a 74.9% stake in the project, the remaining 25.1% are held by Sinopec.

Shareholder and Operating Agreement with KKC on West Kamchatka

On 8 December 2006, the Company and K.K. Korea Kamchatka Co. Ltd. ("**KKC**") entered into a shareholder and operating agreement for the exploration and development of a shelf area in West Kamchatka. Korean National Oil Corporation ("**KNOC**") owns 50% of KKC and a Korean consortium of 6 companies owns the other 50% of KKC. LLC Kamchatneftegaz, the licence owner and operator of the West Kamchatka shelf area, is a wholly owned subsidiary of the holding company of the project, West Kamchatka Holding B.V., incorporated in the Netherlands in 2005. The Company owns 60% of West Kamchatka Holding B.V. and KKC owns 40% of this company. The financing of the project is based on a carry financing agreement, whereby KKC will carry the totality of the Company's financing costs for this project during the exploration phase. Pursuant to the shareholder and operating agreement, key business decisions of West Kamchatka Holding B.V. shall be subject to the unanimous approval by both the Company and KKC and neither of the participants has a preferential voting right. As a result, the Company accounted for this investment using the equity method.

Strategic Partnership Agreement with Gazprom

On 28 November 2006, the Company and Gazprom entered into a Strategic Partnership Agreement. The parties intend to participate jointly in tenders and auctions for subsoil use rights and implement joint projects, the terms of which will be defined under separate agreements, involving in particular, the creation of gas-processing and petrochemical facilities in Eastern Siberia and the Russian Far East. Both Rosneft and

Gazprom will share equally in joint projects involving geological prospecting and development of deposits, except projects with third-party participation. Pursuant to the Strategic Partnership Agreement, Gazprom will purchase from Rosneft natural gas of no less than actual gas sales volume of 2006, which was 9.57 bcm, and in excess of actual gas production at the western Siberia fields connected to the Unified Gas Supply System (UGSS) over the levels of production from such fields in 2006, which was 8.45 bcm. The Strategic Partnership Agreement is effective until the end of 2015.

Shareholder and Operating Agreements with BP Holdings on Sakhalin-4 and Sakhalin-5

On 21 November 2006, the Company and BP Holdings International B.V. (“**BP Holdings**”) entered into two shareholder and operating agreements for the exploration and development of Sakhalin-5 and Sakhalin-4 blocks. According to the agreements, the Company will hold 51% and BP Holdings will hold 49% of the shares of each of Vostok-Shmidt Neftegaz Holdings B.V. and Zapad-Shmidt Neftegaz Holdings B.V., holding companies incorporated in the Netherlands. Vostok-Shmidt Neftegaz Holdings B.V. will in turn become the sole shareholder of CJSC Vostok-Shmidt Neftegaz, the licence owner and operator of the project to explore and develop the Sakhalin-5 block (the “**Sakhalin-5 Project**”). Zapad-Shmidt Neftegaz Holdings B.V. will in turn become the sole shareholder of CJSC Zapad-Shmidt Neftegaz, the licence owner and operator of the project to explore and develop the Sakhalin-4 block (the “**Sakhalin-4 Project**”). The financing of the projects is based on a carry financing agreement, whereby BP Holdings has agreed to carry the totality of the Company’s financing costs of these projects during the exploration phase.

Agreements on the Establishment of Joint Ventures

On 21 March 2006, the Company and CNPC entered into an agreement for the establishment of joint ventures in Russia and China. The agreement contemplates the establishment of a joint venture for crude oil refining and distribution of petroleum products in China and a joint venture for exploration and production of crude oil and gas in Russia.

In October 2006, the Company and CNPC International, a wholly owned subsidiary of CNPC, established Vostok-Energy, a joint venture of which the Company owns 51% and CNPC International Ltd. owns 49%. Vostok-Energy is engaged in exploration and development of crude oil and gas deposits in Russia. In July 2007, Vostok-Energy acquired two licences for the exploration, development and production of crude oil and gas in the Irkutsk region. See “—Licences Won at Auctions—2007.”

On 9 November 2006, Rosneft International Limited, a wholly owned subsidiary of the Company, entered into an agreement with PetroChina Company Limited (“**PetroChina**”), the owned subsidiary of CNPC, for the establishment of a joint venture in China for crude oil refining, production of petrochemical products and distribution of petroleum and petrochemical products in China and abroad. In October 2007, the parties established PetroChina-Rosneft Orient Petrochemical (Tianjin) Co., Ltd., a joint venture of which Rosneft International Limited owns 49% and PetroChina owns 51%. As contemplated by the agreement, the joint venture will construct a refinery with a targeted refining capacity of 10 million tonnes of crude oil per year and establish and maintain a network of at least 300 fuelling stations in China. Rosneft will be the primary supplier of crude oil to the joint venture.

Main Factors Affecting Results of Operations

The main factors that have affected Rosneft’s results of operations during the periods being analysed, and that can be expected to affect its results of operations in the future, are:

- Changes in crude oil, petroleum products and gas prices;
- Growth of production of gas and petroleum products;
- RUB/US\$ exchange rate movements and inflation;
- Changes in mineral production tax and export customs duty;
- Changes in transport tariffs of natural monopolies (for pipeline and railroad transport); and
- Acquisitions of upstream, downstream and other assets from Yukos as a result of the April-August 2007 auctions described above under —“Significant Acquisitions — 2007 — Purchase of Yukos Assets.”

Changes in prices, export customs duty and transport tariffs can have a significant impact on the mix of products and export routes the Company selects, as it seeks to maximise netbacks for the crude oil it produces. Rosneft’s net income has been significantly affected by increases in crude oil, petroleum products and gas prices in the fourth quarter and for 12 months ended 31 December 2007.

Changes in Crude Oil, Petroleum Products and Gas Prices

The prices of crude oil and petroleum products internationally and in Russia have a significant impact on the Company's results of operations. World prices for crude oil are characterised by significant fluctuations that are determined by the global balance of supply and demand. The crude oil that Rosneft exports through the Transneft pipeline system is blended with oil of other producers that is of a different quality. The resulting Urals blend is traded at a discount to Brent. Russian domestic market prices for crude oil are difficult to determine, mainly due to the significant intragroup turnover of the vertically integrated oil companies that dominate the market. Moreover, to the extent they exist, crude oil market prices in Russia can be significantly lower than they might otherwise be due to seasonal oversupply and regional imbalances.

The dynamics of petroleum product prices in the international and Russian markets are determined by a number of factors, the most important among them being the level of world prices for crude oil, supply and demand for petroleum products, competition in the different markets and distances from the refineries where the crude oil is refined into usable end products or intermediate products.

The table below sets forth the average crude oil and petroleum products prices worldwide and in Russia for the periods indicated:

	For 3 months ended 31 December		For 12 months ended 31 December			% change for 3 months ended 31 December	% change for 12 months ended 31 December	% change for 12 months ended 31 December
	2007 (US\$ per barrel)	2006 (US\$ per barrel)	2007 (US\$ per barrel)	2006 (US\$ per barrel)	2005 (US\$ per barrel)	2007 - 2006 (%)	2007 -2006 (%)	2006-2005 (%)
World market								
Brent	88.69	59.68	72.52	65.14	54.38	48.6%	11.3%	19.8%
Urals (average Med+NWE)	85.91	56.31	69.39	61.27	50.47	52.6%	13.3%	21.4%
Dubai-Oman	82.12	57.65	68.27	62.01	49.88	42.4%	10.1%	24.3%
Premium gasoline (High octane) (average NWE)	793.60	535.40	703.90	625.86	534.06	48.2%	12.5%	17.2%
Regular gasoline (Low octane) (average NEW)	788.73	517.12	693.84	611.12	531.75	52.5%	13.5%	14.9%
Naphtha (average Med)	801.36	520.85	673.98	562.74	473.32	53.9%	19.8%	18.9%
Fuel oil (average Med)	437.72	253.67	337.82	285.33	227.38	72.6%	18.4%	25.5%
Jet fuel (kerosene) (average Med)	865.90	599.84	710.51	646.46	563.29	44.4%	9.9%	14.8%
Gasoil fuel (average Med)	784.92	542.19	639.68	583.24	507.58	44.8%	9.7%	14.9%
Russian market⁽¹⁾								
Crude oil	343.03	193.06	280.19	254.06	213.15	77.7%	10.3%	19.2%
Fuel oil	316.19	170.35	219.43	204.38	145.30	85.6%	7.4%	40.6%
Diesel fuel	717.23	516.40	587.16	557.79	495.15	38.9%	5.3%	12.7%
High octane gasoline	908.45	724.26	787.71	740.10	606.76	25.4%	6.4%	22.0%
Low octane gasoline	745.96	616.74	656.74	597.17	494.48	21.0%	10.0%	20.8%

Sources: Platts (world market), Kortes (Russian market).

(1) Market prices are including VAT of 18% and relevant excise tax.

Rosneft's gas sales have been limited to date, but the Company's strategy anticipates a significant increase in its gas business. Gazprom controls access to the UGSS, and is the predominant supplier of gas in Russia and the only exporter of gas produced in Russia. Rosneft sells the gas it produces to Gazprom from time to time and is currently in the process of negotiating a long-term agreement to secure Rosneft's access to the UGSS for gas sales to third parties and to sell additional gas to Gazprom, consistent with the Strategic Partnership Agreement entered into between the Company and Gazprom on 28 November 2006. See "— Strategic Partnership Agreement with Gazprom." The Russian government regulates the prices for the gas Gazprom sells in Russia. While the regulated price has been rising in Russia, and is expected to continue to rise to a level closer to parity with export netbacks, it is currently still significantly below world prices levels. The regulated price has affected, and is likely to continue to affect, the pricing of the gas Rosneft sells to Gazprom from time to time or pursuant to the contract it is negotiating. Rosneft's average gas sale price was RUB 757

(US\$ 29.61) per thousand cubic meters, RUB 560 (US\$ 20.58) per thousand cubic meters and RUB 531 (US\$ 18.82) per thousand cubic meters in the years ended 31 December 2007, 2006 and 2005, respectively. Rosneft's average gas sale price for the fourth quarter 2007 amounted to RUB 782 (US\$ 31.74) per thousand cubic meters in comparison to RUB 568 (US\$ 19.77) per thousand cubic meters in the fourth quarter 2006. These prices were affected by the appreciation of the rouble over the US dollar.

RUB/US\$ Exchange Rate Movements and Inflation

The rouble–US dollar exchange rate and inflation trends in the Russian Federation affect Rosneft's results of operations since most of Rosneft's revenues from sales of crude oil and petroleum products are denominated in US dollars, while a substantial portion of its expenses is denominated in Russian roubles. Accordingly, any real appreciation of the rouble versus the US dollar negatively affects Rosneft's margins. The rouble has appreciated against the US dollar in real and nominal terms throughout the periods being analysed. The Company began to use currency hedging mechanisms in January 2007 in order to partially mitigate the effects of the fluctuation of the rouble exchange rate.

Whether the rouble appreciates or depreciates in real terms is a function of the relationship between movements in the nominal exchange rate and inflation. The table below sets forth information on exchange rate movements and inflation during the periods being analysed:

	For 3 months ended 31 December		For 12 months ended 31 December		
	2007	2006	2007	2006	2005
Rouble inflation (CPI) for the specified period ⁽¹⁾	3.9%	1.4%	11.9%	9.0%	10.9%
Rouble/US dollar exchange rate at the beginning of the period ⁽¹⁾	24.95	26.78	26.33	28.78	27.75
Rouble/US dollar exchange rate at the end of the period ⁽¹⁾	24.55	26.33	24.55	26.33	28.78
Average rouble/US dollar exchange rate during the period ⁽¹⁾	24.65	26.59	25.58	27.19	28.29
Real appreciation/(depreciation) of the rouble against the US dollar, as calculated by Rosneft for the specified period ⁽³⁾ (vs the same period one year earlier)	18.9%	19.1%	18.9%	19.1%	6.9%

(1) Source: CBR, State Statistics Committee of Russia.

(2) Rosneft uses the following formula: the rouble – US dollar exchange rate at the end of the period *minus* the rouble – US dollar exchange rate at the beginning of the period, the total of which is *divided* by the rouble – US dollar exchange rate at the beginning of the period.

(3) Rosneft uses the following formula: rouble inflation *multiplied* by the Consumer Price Index *plus* one, the total of which is *multiplied* by nominal appreciation of the rouble *plus* one *minus* one from the total of the previous calculations.

Changes in Mineral Production Tax and Export Customs Duty

Mineral production tax and export customs duty accounted for approximately 45% of Rosneft's total revenues during the periods being analysed. The table below sets forth the mineral production tax and export customs duty paid by Rosneft during these periods:

	For 3 months ended 31 December		For 12 months ended 31 December			% change for 3 months ended 31 December	% change for 12 months ended 31 December	% change for 12 months ended 31 December
	2007	2006	2007	2006	2005	2007-2006	2007-2006	2006-2005
Mineral production tax						(%)	(%)	(%)
Crude oil (RUB per tonne)	3 039	2 008	2 470	2 264	1 873	51.3%	9.0%	20.8%
Crude oil (US\$ per barrel)	16.85	10.32	13.20	11.47	9.09	63.3%	15.1%	26.1%
Gas (RUB per thousand cubic meters)	147	147	147	147	135	0%	0%	8.9%
Export customs duty								
Crude oil (US\$ per tonne)	258.67	218.63	206.49	196.86	130.02	18.3%	4.9%	51.4%
Crude oil (US\$ per barrel)	35.26	29.89	28.23	26.91	17.77	17.9%	4.9%	51.4%
Light and medium distilled products (US\$ per tonne)	186.60	159.60	151.45	143.66	91.53	16.9%	5.4%	57.0%
Fuel oil (US\$ per tonne)	100.53	86.00	81.57	77.41	52.43	16.9%	5.4%	47.6%

Mineral Production Tax

The rate of mineral production tax for crude oil during the 12 months ended 31 December 2007 and 2006 was calculated by multiplying the base rate per tonne of crude oil produced by the adjustment ratio equal to $(P - 9) * R_t / 261$, where "P" is the average Urals price per barrel during the previous month, and "R_t" is the

average rouble/US dollar exchange rate established by the CBR during the previous month. The base rate was RUB 419 in the fourth quarter of 2007 and 2006 and for 12 months ended 31 December 2007 and 2006.

In the fourth quarter of 2007, the rate of mineral production tax for crude oil increased by 51%, primarily due to an increase in average crude oil prices by 53% as compared with the fourth quarter ended 31 December 2006.

In 2007 the rate of mineral production tax for crude oil increased by 9%, primarily due to an increase in average crude oil prices by 13% and a decrease in the average rouble US dollar exchange rate by 6% for 12 months ended 31 December 2007 as compared to 12 months ended 31 December 2006.

Mineral production tax was US\$ 15.96 per barrel of crude oil produced and US\$ 14.26 per barrel of oil equivalent produced in the fourth quarter of 2007 and US\$ 8.74 per barrel of crude oil produced and US\$ 7.69 per barrel of oil equivalent produced, respectively, in the fourth quarter of 2006.

Mineral production tax was US\$ 13.08 per barrel of crude oil produced and US\$ 11.58 per barrel of oil equivalent produced for 12 months ended 31 December 2007 and US\$ 11.00 per barrel of crude oil produced and US\$ 9.67 per barrel of oil equivalent produced for 12 months ended 31 December 2006. In 2005 the production tax was US\$ 8.81 per barrel of crude oil produced and US\$ 7.71 per barrel of oil equivalent produced.

The rate of mineral production tax for gas has been flat and was RUB 147 per thousand cubic meters of gas produced in the fourth quarter of 2007 and for 12 months ended 31 December 2007, unchanged compared to the fourth quarter of 2006 and 12 months ended 31 December 2006. In 2005 the rate of mineral production tax for gas was 135 per thousand cubic meters of gas produced.

On 27 July 2006, the legislation Board of the Russian Federation adopted the Federal law No. 151–FZ, effective from 1 January 2007, and on 30 December 2006, the Federal law No. 268–FZ, effective from 31 January 2007. These laws amended the mineral production tax regime. The key provisions of the laws are:

- Certain mineral production tax-free periods for “greenfield” crude oil projects in the Republic of Sakha (Yakutya), the Irkutsk region and the Krasnoyarsk territory for up to 10 years for new production licences and 15 years for new combined exploration and production licences or up to 25 million tonnes of crude oil per licence during the tax-free period without paying mineral production tax.
- Certain mineral production tax-free periods for crude oil losses within normative limits, approved for the previous years, if the new norms are not approved by 25 February of the current year.
- Inclusion of a depletion ratio in the formula for calculating mineral production tax rates, which enables correction of the tax rate depending on degree of depletion of each field. The lowest mineral production tax rates apply to “brownfield” interests that are 80% or more depleted.
- Zero mineral production tax for high density crude oil (more than 200 Megapascal second under reservoir conditions) where the direct method of accounting for produced oil is used.

Rosneft expects to benefit from this legislation as the Group has extensive “greenfield” interests in Eastern Siberia and has material “brownfield” interests that are over 80% depleted.

Export Customs Duty

As described in the following table, the rate of export customs duty is linked to the average Urals price in the world oil markets of North-West Europe and the Mediterranean in US dollars per barrel of extracted crude oil (expressed in US dollars per tonne).

The table below sets forth the calculation of export customs duty in the fourth quarter of 2007 and 2006 and for 12 months ended 31 December 2007, 2006 and 2005:

<u>Urals price</u> (US\$ per tonne)	<u>Export customs duty</u> (US\$ per tonne)
Below and including 109.5 (15 US\$ per barrel)	Export customs duty is not levied
Above 109.5 to and including 146 (15 to 20 US\$ per barrel)	35% of the difference between the average Urals price in US\$ per tonne and US\$ 109.5
Above 146 to and including 182.5 (20 to 25 US\$ per barrel)	US\$ 12.78 plus 45% of the difference between the average Urals price in US\$ per tonne and US\$ 146
Above 182.5 (25 US\$ per barrel)	US\$ 29.2 plus 65% of the difference between the average Urals price in US\$ per tonne and US\$ 182.5

While the average Urals prices increased to US\$ 85.91 per barrel in the fourth quarter 2007 from US\$ 56.31 per barrel in the fourth quarter 2006, the rate of export customs duty for crude oil increased to US\$ 258.67 per tonne (US\$ 35.26 per barrel) of crude oil in the fourth quarter 2007 from US\$ 218.63 per tonne (US\$ 29.89 per barrel) in the fourth quarter 2006. Effective export customs duty with respect to oil sales was US\$ 31.5 per barrel of crude oil exported in the fourth quarter 2007 and US\$ 30.3 per barrel of crude oil exported in the fourth quarter 2006.

The average Urals prices increased to US\$ 69.39 per barrel for 12 months 2007 from US\$ 61.27 per barrel for 12 months 2006, and the rate of export customs duty for crude oil increased to US\$ 206.49 per tonne (US\$ 28.23 per barrel) of crude oil for 12 months 2007 from US\$ 196.86 per tonne (US\$ 26.91 per barrel) of crude oil for 12 months 2006. In 2005 the average Urals prices amounted to US\$50.47 per barrel and the rate of export customs duty for crude oil was 130.02 per tonne (US\$ 17.77 per barrel).

The rate of export customs duties increases along with average Urals prices. In 2007, 2006 and 2005 the rate of export customs duty for crude oil amounted to US\$ 185.36 per tonne (US\$ 25.34 per barrel), US\$ 199.26 per tonne (US\$ 27.24 per barrel) and US\$ 133.28 per tonne (US\$ 18.22 per barrel), accordingly. This difference in growth rate is primarily due to the Russian government setting the rate of export customs duty every two months based on changes in the average world prices for the Urals crude oil. Export duties for petroleum products are established by the Russian government depending on rates of world crude oil prices.

Prior to 1 January 2007, export duty was not payable on exports of crude oil and petroleum products to CIS countries that are members of the Customs Union, and include Belarus, Kazakhstan, Kirgiziya and Tadzhikistan. Starting from 1 January 2007, export customs duty is levied on crude oil exports to Belarus as specified above. Crude oil sales to countries that are exempt from export customs duty were US\$ 318 million (7.71 million barrels) for 12 months ended 31 December 2007 and US\$ 1,575 million (42.71 million barrels) for 12 months ended 31 December 2006.

Changes in Transport Tariffs

Rosneft transports most of its crude oil through the pipeline network owned and operated by Transneft, a state-owned oil pipeline monopoly engaged in the transportation of crude oil in Russia and abroad. The Federal Tariff Service (the "FTS"), a governmental body regulating the natural monopolies, sets annually Transneft's base tariff for the transportation of crude oil via trunk pipelines, which includes a dispatch tariff, a pumping tariff and a loading tariff. The tariff is set up in Russian Rouble and doesn't linked to exchange rate. The dispatch tariff is set with respect to the entire pipeline network, and the other tariffs are set with respect to each Transneft "district" and the entry and exit points. The overall expense per tonne for the transport of crude oil depends on the length of the transportation route from the producing field to the ultimate destination and the number of Transneft "districts" through which the crude oil is transported. Crude oil tariffs per tonne paid by Rosneft for crude oil transported via Transneft increased 17.4 % on average in the fourth quarter of 2007 in US dollar terms compared to the fourth quarter of 2006. Crude oil tariffs per tonne paid by Rosneft for crude oil transported via Transneft increased by 13.7 % on average for the 12 months ended 31 December 2007 in US dollar terms compared to the 12 months ended 31 December 2006 and increased 18% on average for the 12 months ended 31 December 2006 compared to the 12 months ended 31 December 2005.

In 2007 Rosneft transported approximately 65.8% of crude oil sold through the Transneft pipeline system compared to 67.2% in 2006. In the fourth quarter of 2007 Rosneft transported approximately 67.8% of crude oil sold through the Transneft pipeline system compared to 66.3% in the fourth quarter of 2006.

Rosneft seeks to utilise alternative means of transportation to optimise netbacks, including the Northern route via Rosneft's Belokamenka export transshipment facility, the Southern route via the Caspian Pipeline Consortium ("CPC") pipeline, the Far Eastern route via Rosneft's pipeline Okha-Komsomolsk-on-Amur located on the Sakhalin Island and the Nakhodka export transshipment facility for exports to Asia.

In the fourth quarter of 2007 and 2006, Rosneft exported estimated 11.6% and 12%, respectively, of its petroleum products through the pipeline system owned and operated by OJSC AK Transnefteprodukt ("Transnefteprodukt"), a state-owned petroleum products pipeline monopoly, which has become the Transneft's subsidiary, engaged in the transportation of petroleum products in Russia and abroad. Rosneft exported estimated 12.3% of its petroleum products for the 12 months of 2007, estimated 11.7% for the twelve months of 2006 and 12% in 2005 through Transnefteprodukt's pipeline system. Volumes of petroleum products transported through the pipeline system in 2007 was due to the usage of additional logistics routes after acquisition of new refining capacities. Due to reallocation of transported volumes among transportation routes

(particularly, because of decrease of shipping through “Nikolskoye” direction and more intensive usage of “Ventpils” and “Bryansk-Ventpils” directions for Samara refinery group) and due to the restricted capacity of the pipeline system to transport increased volume of produced petroleum products, the share of railroad transportation also increased. This effect was partially offset by usage of new shipping directions – “Novograd-Volynskiy” and “Petropavlovsk”. The overall expense per tonne for the transportation of petroleum products depends on the distance to the ultimate destination. The petroleum products transported through the Transnefteprodukt pipeline system were produced at refineries, formerly owned by Yukos, located in the Samara region, Kuibyshev, NovoKuibyshev and Syzran refineries (including products received), under processing contracts prior to their acquisition by Rosneft in May 2007. Cost of transportation of petroleum products through the pipeline system was \$US 70 million (or 29,99 US\$/tonne) and \$US 26 million (36.90 US\$/tonne) in the twelve and three months ended 31 December 2007 correspondingly, compared to \$US 14 million (or 9,16 US\$/tonne) and \$US 5 million (or 12.09 US\$/tonne) in twelve and three months ended 31 December 2006 correspondingly. Petroleum products tariffs per tonne paid by Rosneft for petroleum products transported via Transnefteprodukt increased by 205.1% in the fourth quarter of 2007 compared to the fourth quarter of 2006 due to the use of new logistical schemes and transportation routes (“Ventpils” and “Bryansk-Ventpils”) to accommodate larger volumes, and due to an increase in transport tariffs and rouble appreciation. Petroleum products tariff per tonne paid by Rosneft for petroleum products transported via Transnefteprodukt increased 227.4% in the 12 months ended 31 December 2007 compared to the 12 months ended 31 December 2006, due to the use of new logistical schemes and transportation routes (“Ventpils” and “Bryansk-Ventpils”) to accommodate larger volumes, increase in transport tariffs and rouble appreciation. Rosneft’s petroleum products tariff per tonne of petroleum products transported via Transnefteprodukt increased by 1.1% average in 2006 compared to 2005.

Rosneft also depends on railway transportation, which was used for 28.0% of its export sales of crude oil in the fourth quarter of 2007, including railway used in a combination of transportation means, compared to 34.5% in the fourth quarter of 2006, and for approximately 61.2% of its export sales of petroleum products in the fourth quarter of 2007 compared to 45.2 % in the fourth quarter of 2006. For the year ended 31 December 2007, railway transportation accounted for 29.4% of the Company’s export sales of crude oil, compared to 32.6% for the year ended December 2006, and for nearly 53.5% of the Company’s export sales of petroleum products, compared to 49.2 % in 2006. The increase in the railway transportation of export sales of petroleum products in the fourth quarter of 2007 and for the year ended 31 December 2007 resulted from use of new logistical schemes and pipeline transportation routes (Ventpils and Bryansk-Ventpils), as described above. The Russian railway system (“**RZD**”) is a state-owned monopoly provider of railway transportation services. Railway tariff per tonne paid by Rosneft of crude oil shipped increased by 7.8 % in the fourth quarter of 2007 in US dollar terms and increased by 6.7% in 2007 in US dollar terms, generally due to more distant deliveries to China, partially offset by a discount on railway transportation to China effective from the beginning of 2007. In 2006 RZD increased its tariffs for domestic transportation and international transportation through Russian ports by about 13% in Russian Rouble terms. RZD’s tariffs are subject to control by FTS and to antimonopoly regulations.

Recent Acquisitions of Upstream, Downstream and Other Assets from Yukos

Rosneft’s acquisitions of upstream, downstream and other assets from Yukos in April-August 2007 had for the year ended 31 December 2007 and are expected to have in the future a substantial impact on the Company’s results of operations. See “—Significant Acquisitions—2007—Purchase of Yukos Assets.” While it is too early to gauge the full extent of this impact, Rosneft has identified five factors that it currently expects will influence its results. These include:

- increased production of crude oil and petroleum products, the latter resulting from the utilisation by the five acquired refineries of increased volumes of Rosneft crude oil;
- improved margins due to the increase in refining and retail cover and typically higher margins of wholesale and retail petroleum product sales;
- higher production and operating expenses, both upstream and downstream. Higher upstream expenses per barrel are expected to be reduced in relative terms over time as the company works to improve efficiency and purchases and to increase crude oil production at the new upstream assets. The increase in refining operating expenses is expected to be offset in part by significantly lower costs for refining crude oil at third-party refineries as these have now been incorporated into the group;
- increased capital expenditures, both upstream and downstream, as improvements are made to increase and optimize crude oil production and refining at the newly acquired assets;

- higher depreciation, depletion and amortisation due to the increased asset base in the Group; and
- increased debt and interest costs related to the financing and refinancing of the acquisitions. This debt and the related interest costs are expected to be gradually reduced over time in relation to earnings as the Company implements its financial strategy, which targets a ratio of financial debt to EBITDA of approximately one to one by the end of 2010.

Upstream, downstream and other Yukos assets acquired in the course of the May-June 2007 auctions were included in the Consolidated Financial Statements from the date of control established and ownership received, as set forth in the table below. Under Russian law, this date corresponds to the day on which ownership rights are registered with the share register or, with respect to limited liability companies, the day of the notification of the purchase agreement.

	<u>Voting shares</u>	<u>Date of ownership</u>
Exploration and production		
Tomskneft	100.00%	8 May 2007
Samaraneftegaz	100.00%	15 May 2007
OJSC East Siberian Oil and Gas Company	70.78%	18 May 2007
Refining, marketing and distribution		
Achinsk refinery	100.00%	8 May 2007
Angarsk refinery	100.00%	8 May 2007
NovoKuibyshev refinery	100.00%	15 May 2007
Kuibyshev refinery	100.00%	15 May 2007
Syzran refinery	100.00%	15 May 2007
Strezhevskoy mini-refinery	100.00%	10 May 2007
Marketing, distribution and services	51.00%-100.00%	May-July 2007

Production of Crude Oil, Petroleum Products and Gas

Rosneft's ability to generate revenues depends on its production of crude oil and petroleum products. In addition, as noted elsewhere, an important part of Rosneft's strategy is to expand its production and sale of gas.

Production of Crude Oil

Rosneft produces crude oil at seven production Business Units and six fully consolidated production and development subsidiaries, including Samaraneftegaz, which Rosneft acquired in May 2007. 50% of shares of another previously fully consolidated subsidiary, Tomskneft, were sold to Gazprom Neft on December 27, 2007, and its production is included in the share of 50% to the Group's production since the date of sale. The Company also has a 20% share in the Sakhalin-1 project consolidated into Rosneft under the proportionate consolidation method in which Rosneft recovered the right to receive its *pro rata* income following the repayment of the carried interest to Videsh starting from 31 July 2006. See “—Significant Acquisitions—2006—Repayment of Carried Interest in Sakhalin-1 Joint Venture.” In addition, Rosneft produces oil at three production joint ventures, which Rosneft accounts for using the equity method. Yuganskneftegaz, Purneftegaz in Western Siberia and Severnaya Neft on the north of European part of Russia are Rosneft's most important production and development Business Units, collectively accounting for 70.6% in the fourth quarter of 2007 and for 74.4% in 2007. Yuganskneftegaz accounted for 57.7% and 59.6%, Purneftegaz for 7.8% and 9.1% and Severnaya Neft for 5.0% and 5.6% of Rosneft's production in the fourth quarter of 2007 and for the year ended 31 December 2007, respectively.

The following table sets forth Rosneft's crude oil production during the periods being analysed:

	For 3 months ended 31 December		For 12 months ended 31 December			% change for 3 months	% change for 12 months	% change for 12 months
	2007 (millions of barrels)	2006	2007	2006	2005 (millions of barrels)	2007-2006 (%)	2007-2006 (%)	2006-2005 (%)
Crude oil production by Business Units and fully and proportionately consolidated subsidiaries ⁽¹⁾⁽²⁾	198.13	148.65	712.83	576.31	535.16	33.3%	23.7%	7.6%
Crude oil production, as above, plus the share in production of joint ventures ⁽³⁾	205.47	151.47	739.97	582.70	540.39	35.7%	26.9%	7.8%

(1) Crude oil production by Business Units and subsidiaries includes Rosneft's net share of oil produced under the Sakhalin-1 PSA net of 8% royalty of 0.32 million barrels in the fourth quarter of 2007 and of 0.66 million barrels for the year ended 31 December 2007, and net of 2.07% Russian government share of 0.08 million barrels in the fourth quarter of 2007 and of 0.17 million barrels for the year ended 31 December 2007.

(2) Including production of Samaraneftgaz from the date of acquisition in May 2007 to December 31, 2007 and production of Tomskneft since the date of acquisition until the date of sale in December 2007. After the date of sale production of Tomskneft is included in share of 50%.

(3) Crude oil production by Business Units and subsidiaries as set forth above, together with the share in production of joint ventures, including Rosneft's 50.0% share in crude oil produced by LLC Polar Lights ("Polar Lights") and LLC Aday Petroleum Company ("Aday Petroleum") joint venture in Kazakhstan and 49.4% share in crude oil produced by Udmurtneft.

Rosneft increased its production of crude oil, excluding production by Tomskneft and Samaraneftgaz, by 7.8 %, to 160.25 million barrels in the fourth quarter of 2007 from 148.65 million barrels in the fourth quarter of 2006. Rosneft's crude oil production grew as a result of increased production by Yuganskneftgaz and of the Company's 20% share in the production of crude oil at Sakhalin-1. Production by Yuganskneftgaz increased to 118.27 million barrels in the fourth quarter of 2007 from 106.46 million barrels in the fourth quarter of 2006, or by 11.1 %. The Company's net *pro rata* share of oil produced under the Sakhalin-1 PSA was 3.77 million barrels in the fourth quarter of 2007 in comparison to 1.62 million barrels in the fourth quarter of 2006.

For the year ended 31 December 2007, Rosneft increased its production of crude oil, excluding production by Tomskneft and Samaraneftgaz, by 6.7 %, to 614.72 million barrels compared with 576.32 million barrels for the year ended 31 December 2006. Rosneft's crude oil production grew as a result of increased production by Yuganskneftgaz and to the Company's 20% share in the production of crude oil at Sakhalin-1. Production by Yuganskneftgaz increased from 409.61 million barrels for the year ended 31 December 2006, to 441.77 million barrels for the year ended 31 December 2007, or by 7.9 %. The Company's net *pro rata* share of oil produced under the Sakhalin-1 PSA was 14.72 million barrels for the twelve months ended 31 December 2007 in comparison with 1.96 million barrels for the twelve months ended 31 December 2006.

In 2006, Rosneft increased its production of crude oil by 7.7%, to 576.32 million barrels compared with 535.16 million barrels in 2005. This growth was largely attributable to increased production by Yuganskneftgaz and Severnaya Neft. Yuganskneftgaz increased its production from 374.60 million barrels in 2005, to 409.61 million barrels in 2006 or by 9.3%, and Severnaya Neft increased its production from 35.66 million barrels in 2005 to 41.04 million barrels in 2006, or by 15.1%.

Tomskneft and Samaraneftgaz, which Rosneft acquired in May 2007 and which are fully consolidated from the date of acquisition, collectively contributed 98.11 million barrels to Rosneft's crude oil production from the day of their acquisition in May 2007 to 31 December 2007, including 54.25 million barrels produced by Tomskneft and 43.86 million barrels produced by Samaraneftgaz. Tomskneft and Samaraneftgaz increased Rosneft's crude oil production by 33.3 % to 198.13 million barrels in the fourth quarter of 2007 and by 23.7 % to 712.83 million barrels for the year ended 31 December 2007.

Daily crude oil production in the fourth quarter of 2007, excluding production by Tomskneft and Samaraneftgaz, was 1,821.68 thousand barrels as compared with 1 646.39 thousand barrels in the fourth quarter of 2006. This growth was largely attributable to the drilling of new production wells (159 in the fourth quarter of 2007 and 118 in the fourth quarter of 2006) and the rise in average well production rates in the Company's most significant production Business Units and subsidiaries to 113.52 barrels per day in the fourth quarter of 2007 from 109.0 barrels per day in the fourth quarter of 2006.

Daily crude oil production for the year ended 31 December 2007, excluding production by Tomskneft and Samaraneftgaz, was 1,758.51 thousand barrels as compared with 1,596.44 thousand barrels for the year

ended 31 December 2006. This growth was largely attributable to the significant growth in the drilling of new production wells (539 for the year ended 31 December 2007 and 280 for the year ended 31 December 2006) and the rise in average well production rates in the Company's most significant production Business Units and subsidiaries to 113.95 barrels per day for the year ended December 2007 from 109.0 barrels per day for the year ended 31 December 2006.

Daily crude oil production in 2006 was 1,596.44 thousand barrels as compared with 1,466.19 thousand barrels in 2005. Among the factors contributing to an increase in daily oil production was a raise in average well production rates from 101.7 barrels per day in 2005 to 109.0 barrels per day in 2006, in particular for newly drilled wells from 662.7 to 715.4 barrels per day and due to drilling of new production wells (280 for the year ended 31 December of 2006 and 218 for the year ended 31 December of 2005).

Daily crude oil production of Tomskneft and Samaraneftgaz, which Rosneft acquired in May 2007 collectively contributed 422.71 thousand barrels of daily crude oil from the day of their acquisition in May 2007 to 31 December 2007, including 232.84 thousand barrels per day for Tomskneft and 189.87 thousand barrels per day for Samaraneftgaz.

Production of Gas

The table below sets forth Rosneft's gas production during the periods being analysed:

	For 3 months ended 31 December		For 12 months ended 31 December			% change for 3 months	% change for 12 months	% change for 12 months
	2007	2006	2007	2006	2005	2007-2006	2007-2006	2006-2005
	(bcm)		(bcm)			(%)	(%)	(%)
Gas production by Business Units and fully and proportionately consolidated subsidiaries ^{(1) (2)}	4.04	3.45	15.65	13.57	13.01	17.1%	15.3%	4.2%
Gas production, as above, plus the share in production of joint ventures ⁽³⁾	4.06	3.46	15.71	13.58	13.03	17.2%	15.5%	4.3%

(1) Gas production by Business Units and subsidiaries includes Rosneft's share of gas produced under the Sakhalin-1 PSA net of 8% royalty of 6.52 million cubic metres ("mmcm") in the fourth quarter of 2007 and of 19.14 mmcm for the year ended 31 December 2007, and net of 2.07% Russian government share of 1.69 mmcm in the fourth quarter of 2007 and of 4.95 mmcm for the year ended 31 December 2007.

(2) Including production of Samaraneftgaz from the date of acquisition in May 2007 to December 31, 2007 and production of Tomskneft since the date of acquisition till the date of sale in December 2007. After the date of sale production of Tomskneft is included in share of 50% and the company is consolidated on the equity basis.

(3) Gas production by Business Units and consolidated subsidiaries as set forth above, together with the share in production of joint ventures, including Rosneft's 50.0% share in gas produced by Polar Lights and 49.4% share of Rosneft in gas produced by Udmurtneft.

Rosneft's gas production, excluding production by Tomskneft and Samaraneftgaz, increased by 1.37 % to 3.50 bcm in the fourth quarter of 2007, primarily due to the growth of production in Krasnodarneftgaz Business Unit, OJSC Grozneftgaz and Severnaya Neft and Purneftgaz Business Units.

Rosneft's gas production, excluding production by Tomskneft and Samaraneftgaz, increased by 6.6 % to 14.46 bcm for the year ended 31 December 2007, due to the growth of production in the fields of Krasnodarneftgaz and Purneftgaz Business Units. The level of associated gas utilisation was 60.0 % for the year ended 31 December 2007 compared to 59.0 % for the year ended 31 December 2006.

Tomskneft and Samaraneftgaz, which Rosneft acquired in May 2007 and which are fully consolidated from the day of their acquisition, collectively contributed 1.19 bcm to Rosneft's gas production from the day of their acquisition in May 2007 to 31 December 2007, including 1.01 bcm produced by Tomskneft and 0.17 bcm produced by Samaraneftgaz. Tomskneft and Samaraneftgaz increased Rosneft's gas production by 13.4% to 4.04 bcm in the fourth quarter of 2007 and by 7.6 % to 15.65 bcm for the year ended 31 December 2007.

Gas production increased by 4.2% in 2006, to 13.57 bcm, primarily due to the growth of production in Krasnodarneftgaz, Selkupneftgaz and Purneftgaz. In 2006, the level of associated gas utilisation was 59.0%, compared to 62.5% in 2005, due to the time necessary for the development of additional facilities necessary to accommodate the growing gas production

Rosneft has started developing a gas programme to increase the level of associated gas utilisation. This programme envisages the construction of associated gas gathering facilities, booster compression stations and

underground gas storage facilities. In addition, Rosneft plans to improve the gas quality by constructing oil and gas separation equipment and gas treatment facilities.

Pursuant to the Strategic Partnership Agreement, Rosneft expects that it will participate in joint projects with Gazprom involving geological prospecting and development of gas deposits. See “—Strategic Partnership Agreement with Gazprom.”

Production of Petroleum Products

Rosneft refines the crude oil it produces at its refineries, including at the Tuapse refinery on the Black Sea in the South of Russia and the Komsomolsk refinery in the Russian Far East and the Achinsk and Angarsk refineries and the Strezhevskoy mini-refinery in Eastern Siberia and the Kuibyshev, NovoKuibyshev and Syzran refineries in the Samara region. Rosneft previously arranged for the crude oil it produces to be processed under processing contracts at refineries formerly controlled by Yukos, the Achinsk, Angarsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery, which Rosneft acquired in May 2007. See “—Significant Acquisitions—2007—Purchase of Yukos Assets.” In December 2007, the Company sold 100% of the Strezhevskoy mini-refinery to Tomskneft. Tomskneft in turn was sold to Gazprom Neft on December 27, 2007.

Rosneft also owns the MZ-Nefteprodukt lubricant plant in Moscow and mini-refineries in Gubkin in the Yamalo-Nenets autonomous district, in Usinsk in the Komi Republic and in Nalchik in the Kabardino-Balkarsk Republic.

The following table sets forth Rosneft’s petroleum product production during the periods being analysed:

	For 3 months ended 31 December		For 12 months ended 31 December			% change for 3 months	% change for 12 months	% change for 12 months
	2007	2006	2007	2006	2005	2007-2006	2007-2006	2006-2005
	(millions of tonnes)		(millions of tonnes)			(%)	(%)	(%)
Petroleum products output by the Komsomolsk and Tuapse refineries and mini-refineries ⁽¹⁾	3.21	2.59	12.25	10.49	10.24	23.8%	16.8%	2.4%
Petroleum products output by the East Siberian and Samarskie refineries (mln tonn) ⁽²⁾	8.86	3.31	26.14 ⁽³⁾	12.17	10.88	167.8%	114.8%	11.9%
Total	12.07	5.90	38.39⁽⁴⁾	22.66	21.12	104.6%	69.4%	7.3%

(1) Mini-refineries include Purovskiy, Usinskiy and Kabardino-Balkarskiy mini-refinery.

(2) Acquired by Rosneft in May 2007 as a result of auctions for the sale of certain Yukos assets. These refineries processed Rosneft-produced crude oil under processing contracts prior to their acquisition.

(3) Including 5.65 million tonnes of petroleum products produced from Rosneft oil by the former Yukos refineries prior to the date of their acquisition by Rosneft in May 2007 to 31 December 2007.

(4) Excluded 0.40 million tonn of gas products.

The total output of petroleum products including output of mini-refineries and the Achinsk, Angarsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery purchased by Rosneft in May 2007, increased by 106.6 %, to 12.07 million tonnes in the fourth quarter of 2007 from 5.84 million tonnes in the fourth quarter of 2006. This increase was due to the growth in refining at Rosneft’s refineries and growth in crude oil production Tomskneft and Samaraneftegaz which was directed to refining,

In the fourth quarter of 2007, the Tuapse and Komsomolsk refineries processed 23.85 million barrels (3.26 million tonnes) of Rosneft-produced crude oil, 24.3 % more than in the fourth quarter of 2006. The depth of refining by the Komsomolsk refinery remained almost unchanged accounted to 59.6% in the fourth quarter of 2007 comparing to 60.0 % in the fourth quarter of 2006, and increased by the Tuapse refinery to 56.2 % for the fourth quarter of 2007 from 55.4% for the fourth quarter of 2006, yielding an aggregate of 3.15 million tonnes of petroleum products for the fourth quarter of 2007.

In the fourth quarter of 2007, 69.27 million barrels (9.47 million tonnes) were processed at the Achinsk, Angarsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery which Rosneft purchased during the May 2007 auctions. The depth of refining ranged from 73.2 % by the Angarsk refinery to 60.4 % by the Kuibyshev refinery, yielding an aggregate of 8.92 million tonnes of petroleum products in the fourth quarter of 2007.

The total output of petroleum products including output of mini-refineries and the Achinsk, Angarsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery purchased by Rosneft

in May 2007, increased by 69.4 %, to 38.39 million tonnes for the year ended 31 December 2007 from 22.66 million tonnes for the year ended 31 December 2006. This increase was due to the growth in crude oil production following the purchase of Tomskneft and Samaraneftegaz.

The total output of petroleum products, including output of Achinsk, Angarsk, Kuibyshev, Novokuibyshev, Syzran refineries and Strejevskoy mini-refinery, increased by 7.3%, from 21.11 million tonnes in 2005 to 22.66 million tonnes in 2006.

For the year ended 31 December 2007, the Tuapse and Komsomolsk refineries and mini-refineries processed 91.14 million barrels (12.46 million tonnes) of Rosneft-produced crude oil, 14.4 % more than for the year ended 31 December 2006. The depth of refining by the Komsomolsk refinery decreased to 60.0 % for the year ended 31 December 2007 from 60.7 % for the year ended 31 December 2006, and by the Tuapse refinery to 56.0 % for the twelve months ended 31 December 2007 from 56.4 % for the twelve months ended 31 December 2006, yielding an aggregate of 12.25 million tonnes of petroleum products for the twelve months ended 31 December 2007.

In 2006, the Tuapsinskiy and Komsomolskiy refineries and mini-refineries processed 79.73 million barrels (10.79 million tones) of Rosneft-produced crude oil, 2.9% more than in 2005. Depth of refining by Komsomolskiy refinery increased from 60.1% in 2005 to 60.7% in 2006, and by Tuapsinskiy Refinery from 55.8% in 2005 to 56.4% in 2006, yielding an aggregate of 10.49 million tonnes of petroleum products in 2006.

For the year ended 31 December 2007, 203.58 million barrels (27.83 million tonnes) of Rosneft-produced crude oil were processed at the Achinsk, Angarsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery which Rosneft purchased during the May 2007 auctions. The depth of refining ranged from 76.0 % by the Kuibyshev refinery to 60.6 % by the NovoKuibyshev refinery from the date of acquisition of these refineries to 31 December 2007, yielding an aggregate of 26.14 million tonnes of petroleum products for the year ended 31 December 2007.

Results of Operations

The following table sets forth statement of income information both in absolute values and as a percentage of total revenues during the periods being analysed:

	For 3 months ended 31 December		% change for 3 months ended 31 December		For 12 months ended 31 December				% change for 12 months ended 31 December		% change for 12 months ended 31 December		
	2007	2006	2007-2006 (%)	2007	2006	2005	2007-2006 (%)	2006-2005 (%)	2007	2006	2005	2007-2006 (%)	2006-2005 (%)
	(US\$ millions, except %)		(US\$ millions, except %)										
Revenues													
Oil and gas sales	9,480	57.5%	5,964	72.6%	58.9%	29,902	60.8%	23,499	71.0%	16,152	67.7%	27.2%	45.5%
Petroleum products and processing fees	6,831	41.4%	2,181	26.5%	213.2%	18,531	37.6%	9,250	27.9%	7,374	30.9%	100.3%	25.4%
Support services and other revenues	182	1.1%	74	0.9%	145.9%	783	1.6%	350	1.1%	337	1.4%	123.7%	3.9%
Total revenues	16,493	100.0%	8,219	100.0%	100.7%	49,216	100.0%	33,099	100.0%	23,863	100.0%	48.7%	38.7%
Cost and expenses													
Production and operating expenses	1,265	(7.7)%	710	(8.6)%	78.2%	3,870	(7.9)%	2,197	(6.6)%	1,623	(6.8)%	76.1%	35.4%
Cost of purchased oil, gas, petroleum products and refining costs	407	(2.5)%	485	(5.9)%	(16.1)%	1,610	(3.3)%	1,320	(4.0)%	637	(2.7)%	22.0%	107.2%
General and administrative expenses	498	(3.0)%	209	(2.5)%	138.3%	1,341	(2.7)%	757	(2.3)%	589	(2.5)%	77.1%	28.5%
Pipeline tariffs and transportation costs	1,157	(7.0)%	867	(10.5)%	33.4%	4,226	(8.6)%	3,226	(9.7)%	2,231	(9.3)%	31.0%	44.6%
Exploration expenses	80	(0.5)%	77	(0.9)%	3.9%	162	(0.3)%	193	(0.6)%	164	(0.7)%	(16.1)%	17.7%
Depreciation, depletion and amortisation	862	(5.2)%	402	(4.9)%	114.4%	3,286	(6.7)%	1,638	(4.9)%	1,472	(6.2)%	100.6%	11.3%
Accretion expense	36	(0.2)%	9	(0.1)%	300.0%	78	(0.2)%	34	(0.1)%	35	(0.1)%	129.4%	(2.9)%
Taxes other than income tax	3,668	(22.2)%	1,599	(19.5)%	129.4%	10,890	(22.1)%	6,990	(21.1)%	5,326	(22.3)%	55.8%	31.2%
Export customs duty	4,335	(26.3)%	3,400	(41.4)%	27.5%	13,032	(26.5)%	11,140	(33.7)%	6,264	(26.2)%	16.9%	77.8%
Total cost and expenses	12,308	(74.6)%	7,758	(94.4)%	58.6%	38,495	(78.2)%	27,495	(83.1)%	18,341	(76.9)%	40.0%	49.9%
Operating income	4,185	25.4%	461	5.6%	807.8%	10,721	21.8%	5,604	16.9%	5,522	23.1%	91.3%	1.5%
Other income/(expenses)													
Interest income	59	0.4%	33	0.4%	78.8%	214	0.4%	135	0.4%	81	0.3%	58.5%	66.7%
Interest expense	(403)	(2.4)%	(152)	(1.8)%	165.1%	(1 470)	(3.0)%	(724)	(2.2)%	(775)	(3.2)%	103.0%	(6.6)%
Loss on disposal of property, plant and equipment	(36)	(0.2)%	(70)	(0.9)%	(48.6)%	(119)	(0.2)%	(95)	(0.3)%	(74)	(0.3)%	25.3%	28.4%
Gain/(loss) on disposal of investments	37	0.2%	9	0.1%	311.1%	36	0.1%	3	0.0%	(13)	(0.1)%	1,100%	(123.1)%
Gain from disposal of CJSC Severmorneftegas	-	-	-	-	-	-	-	-	-	1,303	5.5%	-	(100.0)%
Gain from Yukos bankruptcy proceedings	1,050	6.4%	-	-	100.0%	8,970	18.2%	-	-	-	-	100.0%	-
Equity share in affiliates' profits	18	(0.1)%	(15)	(0.2)%	(220.0)%	23	-	17	0.1%	51	0.2%	35.3%	(66.7)%

Dividends and income from joint ventures	9	0.1%	13	0.2%	(30.8)%	18	-	15	-	10	-	20.0%	50.0%
Other expenses,	20	0.1%	(251)	(3.1)%	(108.4)%	(195)	(0.4)%	(320)	(1.0)%	(136)	(0.6)%	(39.1)%	135.3%
Foreign exchange loss	(246)	(1.5)%	(154)	(1.9)%	59.7%	(409)	(0.8)%	(470)	(1.4)%	245	1.0%	(13.0)%	(291.8)%
Total other income/(expenses)	508	3.1%	(587)	(7.1)%	186.5%	7,068	14.3%	(1 439)	(4.3)%	692	2.9%	591.2%	307.9%
Income before income tax and minority interest	4,693	28.5%	(126)	(1.5)%	3 824%	17,789	36.2%	4,165	12.6%	6,214	26.0%	327.1%	(33.0)%
Income tax expense	(1,711)	(10.4)%	724	8.8%	(336.3)%	(4 906)	(10.0)%	(540)	(1.6)%	(1 609)	(6.7)%	808.5%	(66.4)%
Income before minority interest	2,982	18.1%	598	7.3%	398.7%	12,883	26.2%	3,625	11.0%	4,605	19.3%	255.4%	(21.3)%
Minority interest in subsidiaries' earnings	(6)	-	5	0.1%	(220.0)%	(21)	-	(92)	(0.3)%	(446)	(1.9)%	(77.2)%	(79.4)%
Comprehensive income	2,976	18.0%	603	7.3%	393.5%	12,862	26.1%	3,533	10.7%	4,159	17.4%	264.1%	(15.1)%
Total income	2,976	18.0%	603	7.3%	393.5%	12,862	26.1%	3,533	10.7%	4,159	17.4%	264.1%	(15.1)%

Sales Revenues

The table below analyses revenues from sales of crude oil, gas, petroleum products and processing fees during the periods being analysed:

	For 3 months ended 31 December				For 12 months ended 31 December						% change for 3 months	% change for 12 months	% change for 12 months
	2007		2006		2007		2006		2005	2007-2006	2007-2006	2006-2005	
	% of total revenue		% of total revenue		% of total revenue		% of total revenue		% of total revenue	(%)	(%)	(%)	
	(US\$ millions, except %)				(US\$ millions, except %)								
Crude oil													
Export, excluding CIS	8,568	52.0%	5,503	67.0%	26,822	54.5%	21,468	64.9%	13,886	58.3%	55.7%	24.9%	54.6%
Europe and other directions	6,562	39.8%	4,116	50.1%	20,567	41.8%	16,323	49.3%	11,583	48.6%	59.4%	26.0%	40.9%
Asia	2,006	12.2%	1,387	16.9%	6,255	12.7%	5,145	15.6%	2,303	9.7%	44.6%	21.6%	123.4%
CIS	751	4.5%	367	4.5%	2,220	4.5%	1,620	4.9%	1,491	6.2%	104.6%	37.0%	8.7%
Domestic	62	0.4%	43	0.5%	521	1.1%	214	0.6%	600	2.5%	44.2%	143.5%	(64.3)%
Gas	99	0.6%	51	0.6%	339	0.7%	197	0.6%	175	0.7%	94.1%	72.1%	12.6%
Total oil and gas	9,480	57.5%	5,964	72.6%	29,902	60.8%	23,499	71.0%	16,152	67.7%	58.9%	27.2%	45.5%
Petroleum products													
Export, excluding CIS	3,559	21.6%	1,152	14.0%	9,364	19.0%	5,093	15.4%	4,445	18.6%	208.9%	83.9%	14.6%
Europe and other directions	2,184	13.2%	750	9.1%	5,875	11.9%	3,152	9.5%	2,827	11.8%	191.2%	86.4%	11.5%
Asia	1,375	8.4%	402	4.9%	3,489	7.1%	1,941	5.9%	1,618	6.8%	242.0%	79.8%	20.0%
CIS	173	1.0%	57	0.7%	338	0.7%	202	0.6%	64	0.3%	203.5%	67.3%	215.6%
Domestic	2,986	18.1%	970	11.8%	8,672	17.6%	3,953	11.9%	2,865	12.0%	207.8%	119.4%	38.0%
Wholesale	2,231	13.5%	797	9.7%	6,944	14.1%	3,239	9.8%	2,369	9.9%	179.9%	114.4%	36.7%
Retail	755	4.6%	173	2.1%	1,728	3.5%	714	2.1%	496	2.1%	336.4%	142.0%	44.0%
Refining fees	-	-	2	-	44	0.1%	2	0.0%	-	0.0%	100.0%	2,100.0%	100.0%
Petrochemical products	113	0.7%	-	-	113	0.2%	-	-	-	100.0%	100.0%	-	-
Total petroleum and petrochemical products and refining fees	6,831	41.4%	2,181	26.5%	18,531	37.6%	9,250	27.9%	7,374	30.9%	213.2%	100.3%	25.4%
Support services and other revenues	182	1.1%	74	0.9%	783	1.6%	350	1.1%	337	1.4%	145.9%	123.7%	3.9%
Total sales	16,493	100.0%	8,219	100.0%	49,216	100.0%	33,099	100.0%	23,863	100.0%	100.7%	48.7%	38.7%

The table below analyses crude oil, gas and petroleum products sales volumes during the periods being analysed:

	For 3 months ended 31 December				For 12 months ended 31 December				2005	% change for 3 months	% Change for 12 months	% change for 12 months	
	2007		2006		2007		2006						
	% of total sales volume	% of total sales volume	% of total sales volume	% of total sales volume	% of total sales volume	% of total sales volume	(%)	(%)					(%)
(millions of barrels)													
Crude oil													
Export excluding CIS	99.50	50.2%	99.47	64.9%	385.94	53.6%	357.58	62.1%	283.23	54.7%	0.1%	7.9%	26.3%
Europe and other directions	76.95	38.8%	75.31	49.1%	299.53	41.6%	275.85	47.9%	239.61	46.3%	2.2%	8.6%	15.1%
Asia	22.55	11.4%	24.16	15.8%	86.41	12.0%	81.73	14.2%	43.62	8.4%	(6.7)%	5.7%	87.4%
CIS	12.92	6.5%	10.39	6.8%	46.16	6.4%	43.53	7.6%	48.33	9.3%	24.4%	6.1%	(9.9)%
Domestic	1.25	0.6%	1.48	0.9%	14.29	2.0%	6.82	1.2%	28.72	5.6%	(15.5)%	109.5%	(76.3)%
Total crude oil sales	113.67	57.3%	111.34	72.6%	446.39	62.0%	407.93	70.9%	360.28	69.6%	2.1%	9.4%	13.2%
(millions of tonnes)													
Export excluding CIS	13.60	50.2%	13.59	64.9%	52.76	53.6%	48.88	62.1%	38.71	54.7%	0.1%	7.9%	26.3%
Europe and other directions	10.52	38.8%	10.29	49.1%	40.95	41.6%	37.71	47.9%	32.75	46.3%	2.2%	8.6%	15.1%
Asia	3.08	11.4%	3.30	15.8%	11.81	12.0%	11.17	14.2%	5.96	8.4%	(6.7)%	5.7%	87.4%
CIS	1.77	6.5%	1.42	6.8%	6.31	6.4%	5.95	7.6%	6.61	9.3%	(24.4)%	6.1%	(9.9)%
Domestic	0.17	0.6%	0.20	0.9%	1.95	2.0%	0.93	1.2%	3.93	5.6%	(15.5)%	109.5%	(76.3)%
Total crude oil sales	15.54	57.3%	15.21	72.6%	61.02	62.0%	55.76	70.9%	49.25	69.6%	2.1%	9.4%	13.2%
Petroleum products													
Export excluding CIS	5.69	21.0%	3.01	14.4%	18.47	18.8%	12.66	16.1%	13.14	18.6%	89.0%	45.9%	(3.7)%
Europe and other directions	3.41	12.6%	2.00	9.6%	11.90	12.1%	7.85	10.0%	8.27	11.7%	70.5%	51.6%	(5.1)%
Asia	2.28	8.4%	1.01	4.8%	6.57	6.7%	4.81	6.1%	4.87	6.9%	125.7%	36.6%	(1.2)%
CIS	0.33	1.2%	0.25	1.2%	0.70	0.7%	0.68	0.9%	0.30	0.4%	32.0%	2.9%	126.7%
Domestic	5.56	20.5%	2.48	11.8%	18.28	18.5%	9.53	12.1%	8.04	11.4%	124.2%	91.8%	18.5%
Wholesale	4.75	17.5%	2.27	10.8%	15.97	16.2%	8.43	10.7%	7.07	10.0%	109.3%	89.4%	19.2%
Retail	0.81	3.0%	0.21	1.0%	2.31	2.3%	1.10	1.4%	0.97	1.4%	285.7%	110.0%	13.4%
Total petroleum product sales	11.58	42.7%	5.74	27.4%	37.45	38.0%	22.87	29.1%	21.48	30.4%	101.7%	63.8%	6.5%
Total crude oil and petroleum product sales	27.12	100.0%	20.95	100.0%	98.47	100.0%	78.63	100.0%	70.73	100.0%	29.5%	25.2%	11.2%
Gas													
Sales volumes	3.13		2.58		11.45		9.57		9.3		21.3%	19.6%	2.9%

Note: total volume of sales of crude oil is different from the total volume of field production due to changes in volume of oil reserves, purchase of crude oil for resale, use in Rosneft production and losses during the transportation and in refining.

Average Crude Oil and Petroleum Products Sales Prices Achieved by Rosneft

The unit prices in the following table may differ from unit prices of crude oil and petroleum products provided by information agencies due to the following factors:

- Seasonal and other production fluctuations;
- Different conditions of sales and supplies versus those cited in mass media;
- Different regional market factors;
- Discounts or mark-ups depending on crude oil or petroleum product quality, sales volume and timing of transactions; and
- Terms of individual contracts differing from average market prices.

The following table sets forth the average export and domestic prices of crude oil, gas and petroleum products in the periods being analysed:

	For 3 months ended 31 December				For 12 months ended 31 December					
	2007		2006		2007		2006		2005	
	(US\$/ barrel)	(US\$/ tonne)	(US\$/ barrel)	(US\$/ tonne)	(US\$/ barrel)	(US\$/ tonne)	(US\$/ barrel)	(US\$/ tonne)	(US\$/ barrel)	(US\$/ tonne)
Average export prices										
Crude oil, excluding CIS	86.11	630.03	55.32	404.93	69.50	508.39	60.04	439.20	49.03	358.72
Europe and other directions	85.27	625.48	54.65	400.00	68.67	502.26	59.18	432.88	48.34	353.68
Asia	88.95	651.24	57.41	420.30	72.39	529.64	62.95	460.53	52.80	386.41
CIS	58.10	424.08	35.32	258.32	48.09	351.77	37.21	272.23	30.85	225.57
Petroleum products, excluding CIS	-	625.48	-	382.72	-	506.99	-	402.29	-	338.28
Europe and other directions	-	638.37	-	375.00	-	493.66	-	401.76	-	341.84
Asia	-	603.24	-	398.02	-	531.11	-	403.95	-	332.24
CIS	-	524.24	-	228.00	-	482.86	-	297.05	-	213.33
Average domestic prices										
Crude oil	49.01	358.93	29.05	215.00	36.47	267.27	31.36	229.40	20.89	152.67
Gas (US\$/thousand cubic meter)	-	31.74	-	19.77	-	29.61	-	20.58	-	18.82
Petroleum products	-	537.05	-	391.13	-	474.38	-	414.54	-	356.34
Wholesale	-	469.64	-	351.10	-	434.83	-	384.02	-	335.08
Retail	-	931.15	-	823.81	-	747.87	-	648.44	-	511.34

Revenues were US\$ 16,493 million in the fourth quarter of 2007, a 100.7 % increase from US\$ 8,219 million in the fourth quarter of 2006. Revenues from the sale of crude oil and gas grew 58.9%, and revenues from the sale of petroleum products 213.2 %, for the three months ended 31 December 2007 compared with the three month ended 31 December 2006. The growth in revenues was due to modestly increased sales volumes of crude oil and significant increase in volumes of petroleum products, accompanied by an increase in average prices. The growth in volumes was made possible by a 33.3 % increase in crude oil production and a 104.7 % increase in petroleum product production during the period analysed.

Revenues were US\$ 49,216 million in 2007, a 48.7 % increase from US\$ 33,099 million in 2006. Revenues from the sale of crude oil and gas grew 27.2 %, and revenues from the sale of petroleum products 100.3 %, in 2007 as compared with 2006. The growth in revenues was due to increased sales volumes of crude oil and petroleum products, accompanied by an increase in average prices. The growth in volumes was made possible by a 23.7 % increase in crude oil production and a 69.4 % increase in petroleum product production during the period analysed.

Revenues were US\$ 33,099 million in 2006, a 38.7 % increase from US\$ 23,863 million in 2005. Revenues from the sale of crude oil and gas grew 45.5 %, and revenues from the sale of petroleum products 25.4 %, in 2006 as compared with 2005. The growth of revenues from the sale of crude oil and gas resulted the growth of production of oil of 7.6% and the growth of production of oil products of 7.3%.

Crude Oil Export Sales to Non-CIS

In the fourth quarter of 2007, crude oil export revenues from exports to non-CIS countries were US\$ 8,568 million compared to US\$ 5,503 million in the fourth quarter of 2006, an increase of US\$ 3,065 million, or 55.7%. The growth resulted primarily from a 55.7 % increase in average prices, which had a positive impact on revenues of US\$ 3,061 million, and to a much lesser degree, a 0.1 % increase in sales volumes, which had a positive impact on revenues of US\$ 4 million. The price increase was attributable to the general growth of world prices; in particular, the average price for Urals crude oil Mediterranean increased by 52.6 %. Sales volumes grew with respect to both Europe and Asia, mainly due to an increase in crude oil production.

In 2007, crude oil export revenues from exports to non-CIS countries were US\$ 26,822 million comparing to US\$ 21,468 million in 2006, an increase of US\$ 5,354 million, or 24.9 %. Excluding US\$ 45 million of sales by Samaraneftegaz, the growth resulted from a 15.80 % increase in average prices, which had a positive impact on revenues of US\$ 3,649 million, and a 7.7% increase in sales volumes, which had a positive impact on revenues of US\$ 1,660 million. The price increase was attributable to the general growth of world prices; in particular, the average price for Urals crude oil Mediterranean increased 13.3%. Sales volumes grew with respect to both Europe and Asia, mainly due to an increase in crude oil production.

In 2006, crude oil export revenues were US\$ 21,468 million compared to US\$ 13,886 million in 2005, an increase of US\$ 7,582 million, or 54.6%. The growth resulted from a 22.4% increase in average prices, which increased revenues by US\$ 3,934 million, and a 26.3% increase in sales volumes, which had a positive impact on revenues of US\$ 3,648 million. The price increases were attributable to the general growth of world prices; in particular, the average price for Urals crude oil Mediterranean rose 21.4%. Sales volumes grew, mainly in respect of sales to Europe and other markets (including South and North America, Tunisia, Lebanon, Syria, Israel and Turkey), as these markets were the most profitable in 2006.

Crude Oil Export Sales to CIS

In the fourth quarter of 2007, revenues from sales of crude oil to CIS were US\$ 751 million compared to US\$ 367 million in the fourth quarter of 2006, an increase of US\$ 384 million, or 104.6 %. A 64.2% increase in prices, which increased revenues by US\$ 294 million, was accompanied by a 24.4% increase in volumes, which had a positive impact on revenues of US\$ 90 million.

In 2007, revenues from sales of crude oil to the CIS were US\$ 2,220 million compared to US\$ 1,620 million in 2006, an increase of US\$ 600 million, or 37.0 %. A 29.2 % increase in prices, which increased revenues by US\$ 502 million, was accompanied by a 6.1 % increase in volumes, which had a positive impact on revenues of US\$ 98 million.

In 2006, revenues from sales of crude oil to the CIS were US\$ 1,620 million compared to US\$ 1,491 million in 2005, an increase of US\$ 129 million, or 8.7%. A 20.6% increase in prices, which increased revenues by US\$ 278 million, was offset in part by a 9.9% decrease in volumes, which had a negative

impact on revenues of US\$ 149 million. The growth in volumes sold to Belarus was offset by a more significant reduction of volumes sold to Ukraine, a less profitable CIS market due to the applicability of export customs duty.

Crude Oil Domestic Sales

Domestic crude oil sales increased US\$ 19 million to US\$ 62 million in the fourth quarter of 2007 as compared with the fourth quarter of 2006. Excluding sales from new assets, the 47.2% increase in average realised prices increased revenues US\$ 21 million and was accompanied by a 3.5 % decrease in volumes, which had a negative impact on revenues of US\$ 2 million.

Domestic crude oil sales increased US\$ 307 million to US\$ 521 million in 2007 as compared with 2006. This growth resulted from sales by Tomskneft and Samaraneftgaz, which contributed US\$ 346 million (including US\$ 254 million by Tomskneft and US\$ 92 million by Samaraneftgaz) of revenues in 2007. Excluding these sales, the 33.9 % decrease in volumes, which had a negative impact on revenues of US\$ 73 million, was partially offset by a 23.8 % increase in average prices, which increased revenues by US\$ 34 million.

The volume of crude oil sold in Russia decreased significantly in 2006 as compared with 2005. In 2006, domestic crude oil sales decreased US\$ 386 million to US\$ 214 million. This resulted from a 76.3% decrease in sales volume, which accounted for US\$ 458 million of the decrease in revenues, and was partially offset by a 50.3% increase in average prices, which had a positive impact on revenues of US\$ 72 million. The decline in volumes resulted from the allocation of more crude oil to export sales and refining to achieve maximum netback prices as domestic sales of crude oil had a relatively low profitability in comparison to export sales.

Petroleum Products Export Sales to Non-CIS

Average realised prices of petroleum products sales may significantly vary depending on the markets and volumes dispatched. The table below sets forth Rosneft's average price per tonne of petroleum products sold to non-CIS countries during the fourth quarter of 2007 and 2006:

	For the fourth quarter of						% change		
	2007			2006			US\$ millions	millions of tonnes	Average price US\$/ton
	US\$ millions	millions of tonnes	Average price US\$/ton	US\$ millions	millions of tonnes	Average price US\$/ton			
High octane gasoline	15	0.02	774.44	14	0.02	586.54	7.1%	0.0%	32.0%
Low octane gasoline	26	0.04	732.92	16	0.03	587.49	62.5%	33.3%	24.8%
Naphtha	618	0.79	779.61	197	0.40	491.28	213.7%	97.5%	58.7%
Diesel (Gasoil) fuel	1,455	1.83	795.98	564	1.09	515.89	158.0%	67.9%	54.3%
Fuel oil	1,229	2.67	459.83	325	1.41	230.74	278.2%	89.4%	99.3%
Jet fuel (kerosene)	6	0.01	824.97	5	0.01	579.06	20.0%	0.0%	42.5%
Other	210	0.33	642.65	31	0.05	656.82	577.4%	560.0%	(2.2)%
Total	3,559	5.69	625.48	1,152	3.01	382.72	208.9%	89.0%	63.4%

Revenue from the export of petroleum products to non-CIS countries was US\$ 3,559 compared to US\$ 1,152 million in the fourth quarter of 2007 and 2006 respectively, an increase of US\$ 2,407 million, or 208.9%. The growth resulted from a 89.0% increase in sales volume, which had a positive impact on revenues of US\$ 1,026 million, and a 63.4% increase in average prices, which increased revenues by US\$ 1,381 million. The growth in volumes was mainly attributable to increased sales in Europe and other non-CIS countries and Asia. The increase in average prices was due to an increase in world prices; in particular, the average price for fuel oil (average Med) rose by 72.6 %.

The table below sets forth Rosneft's average price per tonne of petroleum products sold to non-CIS countries in 2007 and 2006:

	For 12 months ended 31 December									% change for 12 months ended 31 December			% change for 12 months ended 31 December		
	2007			2006			2005			2007-2006			2006-2005		
	US\$ millions	millions of tonnes	Average price US\$/ton	US\$ millions	millions of tonnes	Average price US\$/ton	US\$ millions	millions of tonnes	Average price US\$/ton	US\$ millions	millions of tonnes	Average price US\$/ton	US\$ millions	millions of tonnes	Average price US\$/ton
High octane gasoline	82	0.11	747.23	45	0.07	636.02	21	0.04	548.90	82.2%	57.1%	17.5%	114.3%	75.00%	15.9%
Low octane gasoline	96	0.14	678.31	57	0.10	595.47	36	0.08	475.80	68.4%	40.0%	13.9%	58.4%	25.00%	25.2%
Naphtha	1,541	2.30	669.65	797	1.56	511.84	688	1.61	428.13	93.4%	47.4%	30.8%	15.8%	(3.1)%	19.6%
Diesel (Gasoil) fuel	3,988	6.18	645.81	2,345	4.31	544.53	2,112	4.36	484.80	70.1%	43.4%	18.6%	11.0%	(1.1)%	12.3%
Fuel oil	3,248	9.01	360.35	1,681	6.28	267.70	1,537	6.92	222.11	93.2%	43.5%	34.6%	9.4%	(9.2)%	20.5%
Jet fuel (kerosene)	28	0.03	790.68	22	0.03	671.05	3	0.01	503.61	27.3%	0.0%	17.8%	633.3%	200.0%	33.2%
Other	381	0.70	554.46	146	0.31	505.15	48	0.12	414.47	161.0%	125.8%	9.8%	204.2%	158.3%	21.9%
Total	9,364	18.47	506.99	5,093	12.66	402.29	4,445	13.14	338.28	83.9%	45.9%	26.0%	14.6%	(3.7)%	18.9%

Revenue from the export of petroleum products to non-CIS countries was US\$ 9,364 million in 2007 as compared to US\$ 5,093 million in 2006, an increase of US\$ 4,271 million, or 83.9 %. Excluding US\$ 50 million of sales by Yukos-M Trading House, the growth resulted from a 44.9 % increase in sales volume, which had a positive impact on revenues of US\$ 2,285 million, accompanied by a 26.2% increase in average prices, which increased revenues by US\$ 1,936 million. The growth in volumes was mainly attributable to increased sales in Europe, other non-CIS countries, and Asia. The increase in average prices was due to an increase in world prices; in particular, the average price for fuel oil Mediterranean rose by 18.4%.

Revenue from the export of petroleum products was US\$ 5,093 million in 2006 compared to US\$ 4,445 million in 2005, an increase of US\$ 648 million, or 14.6%. The growth in revenue from the export of petroleum products was attributable to a 18.9% increase in prices, which increased revenues by US\$ 810 million, partially offset by a 3.7% decrease in sales volume, which had a negative impact on revenues of US\$ 162 million. The growth in average prices was due to the overall increase in world prices; in particular, the average price for fuel oil Mediterranean grew by 25.5%. The decrease in volumes was mainly attributable to the reduction of petroleum products export to Europe and other non-CIS countries.

Petroleum Products Export Sales to CIS

The table below sets forth Rosneft's average price per tonne of petroleum products sold to CIS countries during the fourth quarter of 2007 and 2006:

	For the fourth quarter of						% change			
	2007			2006						
	US\$ millions	millions of tonnes	Average price US\$/ton	US\$ millions	millions of tonnes	Average price US\$/ton	US\$ millions	millions of tonnes	Average price US\$/ton	
High octane gasoline	52	0.07	743.75	0	0.00	-	-	-	-	
Low octane gasoline	2	0.00	728.15	0	0.00	-	-	-	-	
Naphtha	15	0.02	629.01	2	0.01	472.32	650.0%	100.0%	33.2%	
Diesel (Gasoil) fuel	54	0.08	677.45	12	0.03	467.01	350.0%	166.7%	45.1%	
Fuel oil	42	0.12	343.86	40	0.20	201.74	5.0%	(40.0)%	70.4%	
Jet fuel (kerosene)	0	0.00	0.00	0	0.00	-	-	-	-	
Other	8	0.04	204.26	3	0.01	463.06	166.7%	300.0%	(55.9)%	
Total	173	0.33	524.24	57	0.25	228.00	203.5%	32.0%	129.9%	

In the fourth quarter of 2007, revenue from sales of petroleum products to the CIS were US\$ 173 million compared to US\$ 57 million in the fourth quarter of 2006. This growth was attributable to a 129.9% increase in average prices, which increased revenues by US\$ 98 million, and a 32.0 % increase in sales volume, which had a positive impact on revenue of US\$ 18 million.

The table below sets forth Rosneft's average price per tonne of petroleum products sold to CIS countries during in 2007 and 2006:

	For 12 months ended 31 December						% change for 12 months ended 31 December 2007-2006			% change for 12 months ended 31 December 2006-2005					
	2007		2006		2005										
	US\$ mil-lions	mil-lions of ton-nes	Ave- rage price US\$/t on	US\$ mil-lions	mil-lions of ton-nes	Ave- rage price US\$/ ton	US\$ mil-lions	mil-lions of ton-nes	Ave- rage price US\$/ ton	US\$ mil-lions	mil-lions of ton-nes	Ave- rage price US\$/ ton			
High octane gasoline	67	0.09	722.62	9	0.02	510.92	-	0.00	-	644.4%	350.0%	41.4%	-	-	-
Low octane gasoline	4	0.01	666.03	-	0.00	-	-	0.00	-	-	-	-	-	-	-
Naphtha	15	0.02	629.01	5	0.01	475.02	-	0.00	-	200.0%	100.0%	32.4%	-	-	-
Diesel (Gasoil) fuel	122	0.22	564.18	92	0.21	433.57	42	0.10	400.22	32.6%	4.8%	30.1%	120.4%	103.4%	8.3%
Fuel oil	81	0.21	380.22	66	0.36	182.48	13	0.15	86.57	22.7%	(41.7)%	108.4%	402.0%	138.2%	110.8%
Jet fuel (kerosene)	-	0.00	-	18	0.04	487.92	2	0.00	447.97	-	-	-	847.0%	769.5%	8.9%
Other	49	0.15	331.58	12	0.04	309.26	7	0.05	173.45	308.3%	275.0%	7.2%	69.1%	(5.2)%	78.3%
Total	338	0.70	482.86	202	0.68	297.05	64	0.30	213.33	67.3%	2.9%	62.6%	215.6%	126.7%	39.2%

In 2007, revenue from sales of petroleum products to the CIS were US\$ 338 million compared to US\$ 202 million in 2006. This increase resulted primarily from a 62.6 % increase in prices, which increased revenues by US\$ 130 million, accompanied by a 2.9 % increase in volumes, which had a positive impact on revenues of US\$ 6 million.

In 2006, revenues from sales of petroleum products to the CIS were US\$ 202 million compared to US\$ 64 million in 2005, an increase of US\$ 138 million, or 215.6%. This growth primary resulted from a 126.7% increase in volumes, which was mainly due to a shift of volumes to the CIS from other export destinations and increased sales of certain petroleum products for which the demand exists only in the CIS countries. The increase in volumes resulted in a US\$ 81 million increase in revenues and was accompanied by 39.2% increase in prices, which resulted in a US\$ 57 million increase in revenues.

Petroleum Products Domestic Sales

The table below sets forth Rosneft's average price per ton of petroleum products sold on the domestic market during the fourth quarter of 2007 and 2006:

	For the fourth quarter of						% change			
	2007			2006						
	US\$ millions	millions of tonnes	Average price US\$/ton	US\$ millions	millions of tonnes	Average price US\$/ton	US\$ millions	millions of tonnes	Average price US\$/ton	
High octane gasoline	767	0.98	785.01	229	0.40	575.40	234.9%	145.0%	36.4%	
Low octane gasoline	327	0.48	684.71	165	0.30	551.59	98.2%	60.0%	24.1%	
Naphtha	0	0.00	558.79	2	0.00	455.92	(100.0)%	-	22.6%	
Diesel fuel	1,073	1.74	618.40	301	0.68	439.58	256.5%	155.9%	40.7%	
Fuel oil	258	1.05	245.05	94	0.63	148.50	174.5%	66.7%	65.0%	
Jet fuel (kerosene)	138	0.25	542.08	56	0.11	487.60	146.4%	127.3%	11.2%	
Other	423	1.06	399.37	123	0.36	342.92	243.9%	194.4%	16.5%	
Total	2,986	5.56	537.05	970	2.48	391.13	207.8%	124.2%	37.3%	

Revenue from the sale of petroleum products on the domestic market was US\$ 2,986 million in the fourth quarter of 2007, including US\$ 778 million from sales of petroleum products by marketing subsidiaries recently acquired from Yukos, compared to US\$ 970 million in the fourth quarter of 2006, an increase of US\$ 2,016 million, or 207.8 %. Excluding sales of subsidiaries recently acquired from Yukos, the growth in revenue from domestic sales of petroleum products was attributable to a 80.6 % increase in sales volume, which had a positive impact on revenues of US\$ 782 million. The volume growth was mainly attributable to an increase in crude oil production, including production of Tomskneft and Samaraneftgaz from the date of purchase in May 2007. The volume growth was accompanied by a 44.5 % increase in average prices, which had a positive impact on revenues of US\$ 456 million. The increase in sales price was mainly attributable to the growth in world prices of petroleum products.

The table below sets forth Rosneft's average price per tonne of petroleum products sold on the domestic market in 2007 and 2006:

	For 12 months ended 31 December									% change for 12 months ended 31 December					
	2007			2006			2005			2007-2006			2006-2005		
	US\$ millions	millions of tonnes	Average price US\$/ton	US\$ millions	millions of tonnes	Average price US\$/ton	US\$ millions	millions of tonnes	Average price US\$/ton	US\$ millions	millions of tonnes	Average price US\$/ton	US\$ millions	millions of tonnes	Average price US\$/ton
High octane gasoline	2,262	3.18	712.32	949	1.70	556.92	673	1.33	507.28	138.4%	87.1%	27.9%	41.1%	28.5%	9.8%
Low octane gasoline	998	1.68	594.82	583	1.20	486.84	475	1.21	390.77	71.2%	40.0%	22.2%	22.8%	(1.4)%	24.6%
Naphtha	2	0.01	389.34	5	0.01	367.03	7	0.03	260.13	(60.0)%	0.0%	6.1%	(19.3)%	(42.8)%	41.1%
Diesel fuel	3,008	5.74	524.47	1,310	2.69	487.59	947	2.30	411.79	129.6%	113.4%	7.6%	38.4%	16.9%	18.4%
Fuel oil	675	3.41	197.83	357	1.96	182.04	222	1.66	133.34	89.1%	74.0%	8.7%	61.0%	17.9%	36.5%
Jet fuel (kerosene)	530	1.04	510.51	280	0.57	489.96	197	0.47	419.46	89.3%	82.5%	4.2%	42.1%	21.7%	16.8%
Other	1,197	3.22	372.03	469	1.40	334.30	344	1.04	323.07	155.2%	130.0%	11.3%	36.6%	32.0%	3.5%
Total	8,672	18.28	474.38	3,953	9.53	414.54	2,865	8.04	356.34	119.4%	91.8%	14.4%	38.0%	18.5%	16.4%

Revenue from the sale of petroleum products on the domestic market was US\$ 8,672 million in 2007, including US\$ 1,540 million from sales of petroleum products by marketing subsidiaries recently acquired from Yukos, compared to US\$ 3,953 million in 2006, an increase of US\$ 4,719 million, or 119.4%. Excluding sales of subsidiaries recently acquired from Yukos, the growth in revenue from domestic sales of petroleum

products resulted from a 66.5 % increase in sales volume, which had a positive impact on revenues of US\$ 2,627 million. The volume growth was mainly attributable to an increase in crude oil production, including production of Tomskneft and Samaraneftgaz from the date of purchase in May 2007. The volume growth was accompanied by a 8.4% increase in average prices, which had a positive impact on revenues of US\$ 552 million. The increase in sales price was mainly attributable to the growth in world prices of petroleum products.

Revenue from the sale of petroleum products on the domestic market was US\$ 3,953 million in 2006 compared to US\$ 2,865 million in 2005, an increase of US\$ 1,088 million, or 38.0%. The growth in revenue from domestic sales petroleum products was attributable to a 16.4% average price increase, which increased revenues by US\$ 557 million, and a 18.5% increase in sales volume, which had a positive impact on revenues of US\$ 531 million.

The growth in sales prices was mainly attributable to the growth in world prices of petroleum products and inflation in Russia. The volume growth was mainly due to an increase in crude oil production and a decrease in domestic crude oil sales that was facilitated by the agreements entered into in the beginning of 2005 with Yukos-controlled refineries for the refining of crude oil produced by Yuganskneftgaz.

Refining Services

Rosneft provided refining services to Yukos-M Trading House prior to its acquisition by Rosneft in late June 2007. The revenue from processing in 2007 was US\$ 44 million in comparison with US\$ 2 million in 2006. Rosneft did not provide refining services in the fourth quarter of 2007.

Petrochemical Products Sales

Beginning May 2007, after purchase of petrochemical facilities previously owned by Yukos, Rosneft started to sell petrochemical products. The sales revenue from petrochemical products in the fourth quarter of 2007 was US\$ 113 million.

Gas Sales

The table below sets forth Rosneft's average price per thousand of cubic meters of gas sold during the periods being analysed:

	For 3 months ended 31 December		For 12 months ended 31 December			% change for 3 months ended 31 December	% change for 12 months ended 31 December	% change for 12 months ended 31 December
	2007	2006	2007	2006	2005	2007-2006	2007-2006	2006-2005
Revenue	(US\$ million)		(US\$ million)			(%)	(%)	(%)
Western Siberia	31	18	124	59	76	72.2%	110.2%	(22.4)%
South Russia	52	29	143	113	70	79.3%	26.6%	61.4%
Far East	7	4	25	25	29	133.3%	0.0%	(10.7)%
European part of Russia	9	-	47	-	-	-	-	-
Total Rosneft	99	51	339	197	175	94.1%	72.1%	12.6%
Sales	(bcm)		(bcm)					
Western Siberia	1.56	1.43	6.22	5.25	5.68	9.1%	18.5%	(7.6)%
South Russia	1.21	0.92	3.55	3.37	2.45	31.5%	5.3%	37.6%
Far East	0.15	0.22	0.60	0.94	1.17	(31.8)%	(36.2)%	(19.7)%
European part of Russia	0.21	0.01	1.08	0.01	0.00	- *	- *	-
Total Rosneft	3.13	2.58	11.45	9.57	9.30	21.3%	19.6%	2.9%
Average price	(US\$/thousand of cubic metres)		(US\$/thousand of cubic metres)					
Western Siberia	19.84	12.47	19.98	11.19	13.40	59.1%	78.6%	(16.5)%
South Russia	43.11	31.99	40.40	33.43	28.74	34.8%	20.8%	16.3%
Far East	45.44	15.32	41.28	26.68	23.90	196.6%	54.7%	11.6%
European part of Russia	46.27	45.10	43.04	45.10	-	2.6%	(4.6)%	-
Total Rosneft	31.74	19.77	29.61	20.58	18.82	60.5%	43.9%	9.4%

* - - Gas sales volumes for the fourth quarter of 2007 grew 20 times in comparison with fourth quarter of 2006. And for the year 2007 Volumes grew 107 times in comparison with year 2006.

Revenue from the sale of gas was US\$ 99 million in the fourth quarter of 2007, compared to US\$ 51 million in the fourth quarter of 2006, an increase of US\$ 48 million, or 94.1%. The growth was attributable to a 60.5% increase in prices, which increased revenues by US\$ 37 million, accompanied by an 21.3% increase in sales volume, from 2.58 bcm to 3.13 bcm, which had a positive impact on revenues of US\$ 11 million.

Revenue from the sale of gas was US\$ 339 million in 2007, including US\$ 4 million from sales of subsidiaries recently acquired from Yukos, compared to US\$ 197 million in 2006, an increase of US\$ 142 million, or 72.1%. Excluding sales of subsidiaries recently acquired from Yukos, the growth was attributable to a 45.1% increase in prices, which increased revenues by US\$ 104 million, and a 17.1% growth in sales volume, from 9.57 bcm to 11.45 bcm, which had a positive impact on revenues of US\$ 34 million.

Revenue from the sale of gas was US\$ 197 million in 2006 compared to US\$ 175 million in 2005, an increase of US\$ 22 million, or 12.6%. The growth in revenue from gas sales was attributable to a 9.4% increase in prices, which increased revenues by US\$ 17 million, and a 2.9% growth in sales volume, from 9.3 bcm to 9.57 bcm, which had a positive impact on revenues of US\$ 5 million.

Support Services and Other Revenues

Support services and other revenues were US\$ 182 million in the fourth quarter of 2007, including US\$ 53 million from revenues of subsidiaries recently acquired from Yukos, 145.9% higher than US\$ 74 million in the fourth quarter of 2006. Excluding revenues of subsidiaries recently acquired from Yukos, this growth was mainly attributable to an increase in the volume and value of drilling and rent services and transport and shipment services .

Support services and other revenues were US\$ 783 million for the year ended 31 December 2007, including US\$ 337 million from revenues of subsidiaries recently acquired from Yukos, 123.7% higher than US\$ 350 million for the year ended 31 December 2006. Excluding revenues of subsidiaries recently acquired from Yukos, this growth was mainly attributable to an increase in the volume and value of drilling and rent services and sales of materials.

Support services and other revenues were US\$ 350 million in 2006, 3.9% higher than in 2005 (US\$ 337 million). This growth was mainly attributable to an increase in the volume and value of drilling services.

Costs and Expenses

The following table sets forth Rosneft's costs and expenses during the periods being analysed:

	For 3 months ended 31 December		For 12 months ended 31 December					% change for 3 months ended 31 December	% change for 12 months ended 31 December	% change for 12 months ended 31 December			
	2007	2006	2007	2006	2005	2007	2006	2005	2007-2006	2007-2006	2006-2005		
	% of total revenue	% of total revenue	% of total revenue	% of total revenue	% of total revenue	(%)	(%)	(%)	(%)	(%)	(%)		
	(US\$ millions, except %)		(US\$ millions, except %)										
Production and operating expenses	1,265	7.7%	710	8.6%	3,870	7.9%	2,197	6.6%	1,623	6.8%	78.2%	76.2%	35.4%
Cost of purchased oil, gas, petroleum products and refinery costs	407	2.5%	485	5.9%	1,610	3.3%	1,320	4.0%	637	2.7%	(16.1)%	22.0%	107.2%
General and administrative expenses	498	3.0%	209	2.5%	1,341	2.7%	757	2.3%	589	2.5%	138.3%	77.1%	28.5%
Pipeline tariffs and transportation costs	1,157	7.0%	867	10.5%	4,226	8.6%	3,226	9.7%	2,231	9.3%	33.4%	31.0%	44.6%
Exploration expenses	80	0.5%	77	0.9%	162	0.3%	193	0.6%	164	0.7%	3.9%	(16.1)%	17.7%

Depreciation, depletion and amortisation	862	5.2%	402	4.9%	3,286	6.7%	1,638	4.9%	1,472	6.2%	114.4%	100.6%	11.3%
Accretion expense ⁽¹⁾	36	0.2%	9	0.1%	78	0.2%	34	0.1%	35	0.1%	300.0%	129.4%	(2.9)%
Taxes other than income tax	3,668	22.2%	1,599	19.5%	10,890	22.1%	6,990	21.1%	5,326	22.3%	129.4%	55.8%	31.2%
Export customs duty	4,335	26.3%	3,400	41.4%	13,032	26.5%	11,140	33.7%	6,264	26.2%	27.5%	17.0%	77.8%
Total costs and expenses	12,308	74.6%	7,758	94.4%	38,495	78.2%	27,495	83.1%	18,341	76.9%	58.6%	40.0%	49.9%

(1) Unwinding of discount related to asset retirement obligations.

Costs and expenses were US\$ 12,308 million in the fourth quarter of 2007, 58.6 % higher than US\$ 7,758 million in the fourth quarter of 2006. This growth was driven by costs of subsidiaries recently acquired from Yukos, accrual of interest related to Yuganskneftegaz' tax liabilities, higher depreciation, depletion and amortisation, pipeline tariffs and transportation costs, costs of purchased crude oil, and real rouble appreciation against the US dollar of 18.9 % in the fourth quarter of 2007 as compared to the fourth quarter of 2006. Costs and expenses accounted for 74.7% and 94.4 % of Rosneft's total revenues in the fourth quarter of 2007 and 2006, respectively. Costs and expenses excluding export customs duties and taxes other than income tax accounted for 26.1 % and 33.5% of Rosneft's total revenues in the fourth quarter of 2007 and 2006, respectively.

Costs and expenses were US\$ 38,495 million for the year ended 31 December 2007, 40.0 % higher than US\$ 27,495 million for the year ended 31 December 2006. This growth was driven by costs of subsidiaries recently acquired from Yukos, accrual of interest related to Yuganskneftegaz' tax liabilities, which are in the process of being restructured, higher depreciation, depletion and amortisation, pipeline tariffs and transportation costs, costs of purchased crude oil, and real rouble appreciation against the US dollar of 18.9 % for 12 months ended 31 December 2007 as compared to 12 months ended 31 December 2006. Costs and expenses accounted for 78.2 % and 83.1 % of Rosneft's total revenues for the years ended December 2007 and 2006, respectively. Costs and expenses excluding export customs duties and taxes other than income tax accounted for 29.6 % and 28.3% of Rosneft's total revenues for the years ended December 2007 and 2006, respectively.

Costs and expenses were \$US 27,495 million in 2006, - 49.9% higher than US\$18,341 million in 2005. This growth was driven by the increase in expenses for customs duty and mineral extraction tax, crude oil and petroleum products transportation tariffs and raise in the cost of crude oil purchased from Sakhalin-1. These costs and expenses accounted for 83.1% and 76.9% of Rosneft's total revenues in 2006 and 2005, respectively.

Production and Operating Expenses

In the fourth quarter of 2007, production and operating expenses were US\$ 1,265 million compared to US\$ 710 million in the fourth quarter of 2006, a 78.2% increase. The main contributors, excluding the real appreciation of the rouble against the US dollar of 18.9%, were US\$ 482 million of operating expenses of subsidiaries recently acquired from Yukos.

In 2007, production and operating expenses were US\$ 3,870 million compared to US\$ 2,197 million in 2006, (76.2% increase). The main contributors, excluding the real appreciation of the rouble against the US dollar of 18.9%, were US\$ 1,548 million operating expenses of subsidiaries recently acquired from Yukos, higher production volumes, an increase in staff and employees, an increase in salaries, an increase in the cost of materials used in the downstream segment and an increase in well workovers expenses in 2007 as compared with the year ended December 2006, due to abnormally low temperatures in the beginning of 2006.

In 2006 production and operating expenses were US\$2,197 million compared to US\$ 1,623 million in 2005, (35.4% increase). The increase was primarily due to higher volumes of production, increase in salaries expenses and in cost of materials used by retail and marketing business units.

Upstream production and operating expenses include raw materials and supplies, equipment maintenance and repair, wages and salaries, activities to enhance oil recovery, procurement of fuel and lubricants, electricity and other similar costs of production and exploration Business Units and subsidiaries.

Downstream operating expenses include costs of services provided by third parties (such as transshipment and storage services), operating expenses of the marketing companies and operating expenses of refineries.

Of the total production and operating expenses, the upstream and downstream segments accounted for US\$ 801 million and US\$ 253 million, respectively, in the fourth quarter of 2007 and US\$ 480 million and US\$ 121 million, respectively, in the fourth quarter of 2006. Other activities' operating expenses accounted for US\$ 57 million in the fourth quarter of 2007 and US\$ 109 million in the fourth quarter of 2006.

Of the total production and operating expenses, the upstream and downstream segments accounted for US\$ 2,482 million and US\$ 1,020 million, respectively, for the year ended 31 December 2007 and US\$ 1,632 million and US\$ 353 million, respectively, for the year ended 31 December 2006. Other activities' operating expenses accounted for US\$ 368 million for the year ended 31 December 2007 and US\$ 212 million for the year ended 31 December 2006.

Upstream production and operating expenses were US\$ 720 million in the fourth quarter of 2007, or US\$ 3.63 per barrel of crude oil produced and US\$ 3.24 per barrel of oil equivalent produced. These expenses were US\$ 480 million in the fourth quarter of 2006, or US\$ 3.23 per barrel of crude oil produced and US\$ 2.84 per barrel of oil equivalent produced. Upstream production and operating expenses in the fourth quarter of 2007, excluding Sakhalin-1 costs and costs of upstream subsidiaries recently acquired from Yukos, were US\$ 2.72 per barrel of crude oil produced and US\$ 2.41 per barrel of oil equivalent produced. These measures are defined below under —“Key Financial Ratios.”

Upstream production and operating expenses were US\$ 2,482 million for 12 months ended 31 December 2007, or US\$ 3.48 per barrel of crude oil produced and US\$ 3.08 per barrel of oil equivalent produced. These expenses were US\$ 1,632 million for the year ended 31 December 2006, or US\$ 2.83 per barrel of crude oil produced and US\$ 2.49 per barrel of oil equivalent produced. Upstream production and operating expenses for the year ended 31 December 2007, excluding Sakhalin-1 costs and costs relating to Tomskneft and Samaraneftgaz, were US\$ 2.94 per barrel of crude oil produced and US\$ 2.58 per barrel of oil equivalent produced. These measures are defined below under —“Key Financial Ratios.” The growth in upstream production and operating expense is due to an increase in the volume and cost of geotechnical operations, increase in electricity expense, increase in electricity expense and the real rouble appreciation against US dollar of 18.9 %.

Upstream operating expenses were US\$ 1,333 million in 2005, or US\$ 2.49 per barrel of crude oil produced and US\$ 2.18 per barrel of oil equivalent produced. Of the total production and operating expenses, the upstream and downstream segments accounted for US\$ 1,333 million and US\$ 226 million, respectively, in 2005, and other activities' operating expenses amounted to US\$ 64 million in 2005.

The table below sets forth Rosneft's volumes and operating expenses, and general and administrative expenses at the Komsomolsk and Tuapse refineries and at mini-refineries during the periods analysed:

	For 3 months ended 31 December		For 12 months ended 31 December			% change for 3 months ended 31 December	% change for 12 months ended 31 December	% change for 12 months ended 31 December
	2007	2006	2007	2006	2005	2007-2006	2007-2006	2006-2005
Petroleum products output by the Komsomolsk and Tuapse refineries and mini-refineries	(millions of tonnes)		(millions of tonnes)			(%)	(%)	(%)
High octane gasoline	0.08	0.07	0.46	0.39	0.33	23,6%	19,9%	15,0%
Low octane gasoline	0.05	0.06	0.30	0.36	0.44	(22,2)%	(18,3)%	(17,0)%
Naphtha	0.47	0.39	1.58	1.32	1.30	21,4%	19,9%	1,5%
Diesel fuel	0.96	0.69	3.72	3.08	2.90	39,7%	20,8%	6,3%
Fuel oil	1.26	1.10	5.06	4.35	4.25	14,6%	16,5%	2,2%
Jet fuel (kerosene)	0.08	0.06	0.32	0.27	0.27	36,4%	20,1%	0,8%
Other ⁽¹⁾	0.30	0.22	0.80*	0.72	0.75	34,2%	10,1%	(3,1)%
Total	3.21	2.59	12.25	10.49	10.24	23,8%	16,8%	2,4%
Operating expenses and selling, general and administrative expenses (US\$ millions)	36	28	124	95	63	29,4%	30,3%	50,8%
Operating expenses and general and administrative expenses per tonne of output (US\$)	11.35	10.86	10.11	9.06	6.15	4,5%	11,6%	47,2%
Operating expenses and general and administrative expenses per tonne of throughput (US\$)	11.40	10.62	9.93	8.72	5.95	7,4%	13,9%	46,4%

* Excluding 0.40 million tonnes of gas products.

The main contributors to the growth of operating expenses and general and administrative expenses per tonne during the periods being analysed at the Komsomolsk and Tuapse refineries and mini-refineries were rent fees, electricity, wages and salaries and insurance expenses.

The table below sets forth Rosneft's volumes and operating expenses and general and administrative expenses at the Angarsk, Achinsk, Kuibyshev, Novokuibyshev and Syzran refineries and the Strezhevskoy mini-refinery during the periods analysed:

	For 3 months ended 31 December		For 12 months ended 31 December		
	2007	2006	2007	2006	2005
Petroleum products output by the Angarsk, Achinsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery ⁽²⁾	(millions of tonnes)				
High octane gasoline	0.99	-	2.18	-	-
Low octane gasoline	0.39	-	1.04	-	-
Naphtha	0.49	-	1.04	-	-
Diesel fuel	2.91	-	6.71	-	-
Fuel oil	2.86	-	6.21	-	-
Jet fuel (kerosene)	0.36	-	0.78	-	-
Other ⁽¹⁾	0.88	-	2.54	-	-
Total	8.86	-	20.49	-	-
Operating expenses and selling, general and administrative expenses (US\$ millions)	250	-	620	-	-
Operating expenses and general and administrative expenses per tonne of output (US\$)	28.21	-	30.24	-	-
Operating expenses and general and administrative expenses per tonne of throughput (US\$)	26.39	-	28.51	-	-

- (1) Figures do not include fuel for technological purposes and losses (as far as these products are not part of commodity output).
(2) Data presented from the date of acquisition of these refineries by Rosneft in May 2007.

Cost of Purchased Oil, Gas, Petroleum Products and Refining Costs

The cost of purchased crude oil, gas, petroleum products and refining costs includes crude oil, gas and petroleum product procurement costs and costs of refining Rosneft's crude oil at third-party refineries..

The following table shows Rosneft's third-party refining costs and crude oil, gas and petroleum product procurement costs during the periods being analysed:

	For 3 months ended 31 December		For 12 months ended 31 December			% change for 3 months ended 31 December	% change for 12 months ended 31 December	% change for 12 months ended 31 December
	2007	2006	2007	2006	2005	2007-2006 (%)	2007-2006 (%)	2006-2005 (%)
Refinery fees paid to the Angarsk, Achinsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery (US\$ millions) ⁽¹⁾	-	138	198	506	311	(100.0)%	(60.9)%	62.7%
Rosneft crude oil throughput at the Angarsk, Achinsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery (millions of tonnes)	-	3.61	6.09	13.11	11.63	(100.0)%	(53.5)%	12.7%
Refining fees per tonne (US\$)	-	38.23	32.56	38.60	26.74	(100.0)%	(15.6)%	44.3%
Cost of procurement of gas (US\$ millions)	5	-	36	-	-	-	-	-
Procurement of gas (bcm)	0.25	-	1.10	-	-	-	-	-
Cost of procurement of petroleum products from third parties by the downstream segment ⁽²⁾ (US\$ millions)	140	119	442 ⁽⁵⁾	366	231	17.6%	20.8%	58.4%
Procurement of petroleum products from third parties by the downstream segment ⁽³⁾ (millions of tonnes)	0.25	0.33	0.88 ⁽⁶⁾	0.93	0.78	(23.4)%	(5.4)%	15.4%
Cost of procurement of crude oil from third parties by the downstream segment (US\$ millions) ⁽⁷⁾	262	228	934	448	95	14.9%	108.5%	371.6%
Procurement of crude oil from third parties by the downstream segment (millions of barrels) ⁽⁷⁾	6.38	10.69	29.54	18.36	2.14	(40.3)%	60.9%	757.9%
Total cost of purchased oil, gas, petroleum products and refinery fees paid (US\$ millions)⁽⁸⁾	407	485	1,610	1,320	637	(16.1)%	22.0%	107.2%

- (1) From the date of purchase of these refineries by Rosneft in May 2007, the refinery costs are reflected in operating expenses, taxes, depreciation, and amortisation and general and administrative costs. For the year ended 31 December 2007, refinery costs included in operating expenses were US\$ 531 million, refinery costs included in taxes were US\$ 66 million, refinery costs included in depreciation, depletion and amortisation were US\$ 253 million and refinery costs included in general and administrative costs were US\$ 74 million. The refinery fees paid to the former Yukos refineries also include a margin that is eliminated upon consolidation from the date of their acquisition in May 2007.
- (2) The upstream segment also purchases petroleum products from third parties for use in its own operations. These purchases are reflected in production and operating expenses and are included in upstream operating expenses to calculate the relevant key performance indicators mentioned below.
- (3) Including cost of procurement of petroleum products from third parties by downstream subsidiaries recently acquired by Rosneft from Yukos, amounting to US\$ 69 million in the fourth quarter of 2007.
- (4) Including cost of procurement of petroleum products from third parties by downstream subsidiaries recently acquired by Rosneft from Yukos, amounting to 0.10 million tonnes in the fourth quarter of 2007.
- (5) Including cost of procurement of petroleum products from third parties by downstream subsidiaries recently acquired by Rosneft from Yukos, amounting to US\$ 186 million from the date of purchase to 31 December 2007 (US\$ 119 million in the fourth quarter of 2007).
- (6) Including cost of procurement of petroleum products from third parties by downstream subsidiaries recently acquired by Rosneft from Yukos, amounting to 0.31 million tonnes from the date of purchase to 31 December 2007.
- (7) The Company purchases crude oil from Udmurtneft. In 2006, Rosneft also purchased crude oil from the Sakhalin-1 PSA. Starting from 31 July 2006, the Company started to account for Sakhalin-1 under the proportionate consolidation method.
- (8) Including a margin paid to the former Yukos refineries that is eliminated upon consolidation from the date of their acquisition in May 2007.

The refinery fees paid to the Angarsk, Achinsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery are higher compared to the refining costs of the Tuapse and Komsomolsk refineries, in part because the refining costs of the Tuapse and Komsomolsk refineries exclude depreciation, which is reported in depreciation, depletion and amortisation, and taxes other than income tax, while these are included in the refinery fees paid to the former Yukos refineries.

In the fourth quarter of 2007, the cost of purchased crude oil, petroleum products and refining costs was US\$ 407 million, a 16.1% decrease from US\$ 485 million in the fourth quarter of 2006. Decrease of cost of procured oil, gas, petroleum products and processing services was due to a decrease in amount of processing fees after the acquisition of Yukos refining assets. This factor was partially offset by the increase in purchases of

crude oil and petroleum products from third parties, as a result of the increase in the number of retail entities after acquisition of new assets.

In the fourth quarter of 2007, the volume of purchased crude oil was 6.38 million of barrels (at the cost of US\$ 262 million); for the year ended 31 December 2007 the volume of purchased crude oil was 29.54 million of barrels (US\$ 934 millions). For the year of 2006 the volume of purchased crude oil was 18.36 million of barrels (at the cost of US\$ 448 million) compared to 2.14 million barrels (at the cost of \$US 95 million).

After the acquisition of new refining assets from Yukos in May 2007, the Company has been purchasing additional volumes of oil to use full capacity of acquired refineries. In the fourth quarter 2007 the Company was purchasing oil from Surgutneftegaz, Udmurtneft and NAFTA-Sib & Co for total amount of US\$ 262 million (6,38 million barrels). Due to enhancement of partners range and due to raise in world and domestic prices for oil, average purchase price for barrel of oil increased in fourth the quarter 2007 by the 93% compared to the fourth quarter 2006.

In the fourth quarter of 2006 Rosneft purchased almost all of the crude oil (about 10.69 million barrels) produced by Udmurtneft for US\$ 228 million. Starting from September 2006, the Company no longer purchases oil from Sakhalin-1 since the parties to the PSA commenced exports via the Consortium's own terminal in De-Kastri, which started operations in the fourth quarter of 2006. The Company purchased almost all of the crude oil, produced by Sakhalin-1 since the beginning of 2006 to September 2006 (about 7.67 million barrels) for US\$ 220 million.

For the year ended 31 December 2007, the cost of purchased crude oil, petroleum products and refining costs were US\$ 1,610 million, a 22.0 % increase from US\$ 1,320 million in 2006. The increase was mainly attributable to the growth in domestic purchase prices of crude oil.

In certain circumstances, it may be more economical for Rosneft to purchase petroleum products from third parties to supply, together with its own petroleum products, Rosneft's marketing and transshipment subsidiaries. Purchase of crude oil from third parties is exercised primarily to satisfy needs of retail subsidiaries in petroleum products. The volume of petroleum products purchased from third parties was 0.24 million tonnes in the fourth quarter of 2007 and 0.32 million tonnes in the fourth quarter of 2006, and it was 0.88 million tonnes for the year ended 31 December 2007, 0.93 million tonnes for the year ended 31 December 2006 and 0.78 million tonnes for the year ended 31 December 2005.

The table below sets forth Rosneft's average price per tonne of petroleum products procured from third parties during the fourth quarter of 2007 and 2006:

	For 3 months ended 31 December						% change		
	2007			2006					
	US\$ millions	millions of tonnes	Average price US\$/ton	US\$ millions	millions of tonnes	Average price US\$/ton	US\$ millions	millions of tonnes	Average price US\$/ton
High octane gasoline	73	0.11	642.93	16	0.03	540.05	349.7%	277.7%	19.1%
Low octane gasoline	18	0.03	605.18	17	0.03	521.20	3.3%	-	16.1%
Diesel fuel	43	0.09	484.61	33	0.08	432.80	33.3%	19.0%	12.0%
Fuel oil	2	0.01	227.29	37	0.16	227.23	(93.4)%	(93.4)%	0.0%
Jet fuel (kerosene)	2	0.00	513.64	0	0.00	483.24	-	-	6.3%
Other	2	0.00	553.00	16	0.03	547.70	(89.2)%	(89.3)%	1.0%
Total									
	140	0.25	560.88	119	0.33	360.21	17.7%	(24.4)%	55.7%

Rosneft's average price per tonne of petroleum products procured from third parties increased in the fourth quarter of 2007 mainly as a result of the purchases of petroleum products from third parties by downstream subsidiaries recently acquired by Rosneft from Yukos, amounting to US\$ 69 million, or 0.10 million tonnes of petroleum products in the fourth quarter of 2007. Including this influence, Rosneft's average price per tonne of petroleum products procured from third parties increased by 55.7 % in the fourth quarter of 2007 as a result of a change in average prices for petroleum products, change in mix of procured petroleum products and the real rouble appreciation against US\$ of 18.9 %. Excluding the cost of purchases from third parties of petroleum products by former Yukos downstream subsidiaries, Rosneft's cost of procurement of

petroleum products from third parties increased by 31.4 % in the fourth quarter of 2007 as a result of market conditions and the real rouble appreciation against US\$ of 18.9 %.

The table below sets forth Rosneft's average price per tonne of petroleum products procured from third parties during the periods being analysed:

	For 12 months ended 31 December									% change for 12 months ended 31 December					
	2007			2006			2005			2007 и 2006			2006 и 2005		
	US\$ mil- lions	mil- lions of tonnes	Average price US\$ /ton	US\$ mil- lions	mil- lions of tonnes	Average price US\$/ton	US\$ mil- lions	mil- lions of tonnes	Average price US\$/ton	%	%	%	%	%	%
High octane gasoline	194	0.28	687.26	62	0.12	529.93	35	0.09	389.67	213.3%	141.6%	29.7%	76.8%	30.0%	36.0%
Low octane gasoline	47	0.08	594.08	51	0.11	476.50	28	0.08	334.57	(8.5)%	(26.6)%	24.7%	80.1%	26.4%	42.4%
Diesel fuel	133	0.26	520.26	96	0.20	485.98	65	0.18	361.26	38.2%	29.1%	7.1%	48.6%	10.5%	34.5%
Fuel oil	42	0.20	210.91	91	0.39	236.88	65	0.34	194.65	(53.6)%	(47.8)%	(11.0)%	40.0%	15.0%	21.7%
Jet fuel (kerosene)	6	0.01	505.81	0	0.00	463.03	2	0.01	317.75	2,271.6%	2,071.0%	9.2%	(87.3)%	(91.3)%	45.7%
Other	20	0.05	433.77	65	0.12	529.34	35	0.09	381.95	(69.1)%	(62.2)%	(18.1)%	84.2%	32.9%	38.6%
Total	442	0.88	501.81	366	0.93	393.55	231	0.78	296.15	20.7%	(5.4)%	27.5%	58.4%	19.2%	32.9%

Rosneft's average price per tonne of petroleum products procured from third parties increased for the year ended 31 December 2007 mainly as a result of the cost of procurement of petroleum products from third parties by downstream subsidiaries recently acquired by Rosneft from Yukos, amounting to US\$ 186 million, or 0.31 million tonnes of petroleum products, from the date of purchase to 31 December 2007. Excluding this impact, Rosneft's average price per tonne of petroleum products procured from third parties increased by 27.5 % for the year ended 31 December 2007 as a result of a change in average prices of petroleum products and mix of petroleum products procured. Excluding the cost of procurement of petroleum products from former Yukos downstream subsidiaries, Rosneft's cost of procurement of petroleum products from third parties increased by 14.1 % for the year ended 31 December 2007 as a result of market conditions and the real rouble appreciation against US\$ of 18.9 %.

Price of procurement of petroleum products, particularly of fuel oil, may significantly vary depending on the regional markets, where the procurement is made (thus, market price for fuel oil on Far East market differs from Southern Russia market by almost two times). The difference in domestic markets, where the procurement is made explains possible negative deviations from the sales price on domestic markets as a whole, while locally these products are sold with appropriate positive margin.

General and Administrative Expenses

General and administrative expenses include wages and salaries and social benefits, banking commissions, third-party professional service fees for advisory, legal and audit services, insurance expenses, lease expenses with respect to non-core property, expenses to establish allowances for doubtful accounts and other general expenses.

General and administrative expenses in the fourth quarter of 2007 were US\$ 498 million, 138.3 % higher than US\$ 209 million in the fourth quarter of 2006. This increase was mainly due to the general and administrative expenses of subsidiaries recently acquired from Yukos of US\$ 189 million, increased salaries and bonuses and higher legal and consulting costs and real rouble appreciation to US dollar of 18.9%

General and administrative expenses for the year ended 31 December 2007 were US\$ 1,341 million, 77.1 % higher than US\$ 757 million for the year ended 31 December 2006. This increase was mainly due to the general and administrative expenses of subsidiaries recently acquired from Yukos of US\$ 308 million and increased salaries and bonuses due to an increase in the number of employees, and consulting services, and the real rouble appreciation of 18.9 %.

General and administrative expenses in 2006 were US\$ 757 million, 28.5% higher than in 2005 (US\$ 589 million). This increase was mainly due to increased legal, banking, consultancy, valuation, legal and other professional services, which were US\$ 102 million in 2006 and salaries, bonuses and social benefits, which were US\$ 325 million in 2006. In addition, office rent and insurance costs increased in 2006.

Following the decision of the High Arbitrage court of the Russian Federation, the Company accrued provision for commitments and contingencies of Severnaya Neft in the amount of US\$ 39 million in 2006 in connection with a number of licence-related matters.

Pipeline Tariffs and Transportation Costs

Pipeline tariffs and transportation costs include costs to transport crude oil for refining at own and third-party refineries and to end customers, and to deliver petroleum products from refineries to end customers. Transportation costs include the cost of pipeline transportation, sea freight, railway and river tariffs, handling, port fees and customs costs and demurrage.

Pipeline tariffs paid by Rosneft and transportation costs increased to US\$ 1,157 million in the fourth quarter of 2007 from US\$ 867 million in the fourth quarter of 2006. This 33.4 % increase was mainly due to an increase in the volume of transported oil and petroleum products by the pipeline and railway tariffs of natural monopolies. Rosneft's crude oil export pipeline cost per tonne increased by 17.4 % in the fourth quarter of 2007 in US dollar terms compared to the fourth quarter of 2006. Rosneft's crude oil domestic pipeline cost per tonne for transportation to refineries decreased by 14.8 % in the fourth quarter of 2007 compared to the fourth quarter of 2006 due to shorter transportation distance from production units to refining subsidiaries of Samara region recently acquired from Yukos. This change was due to usage of alternative routes of transport due to acquisition of new refining and producing assets. Tariff per tonne of exported petroleum products paid by Rosneft increased by 205.1 % in the fourth quarter of 2007 compared to the fourth quarter of 2006, due to the use of new logistical schemes and transportation routes ("Ventspils" and "Bryansk-Ventspils"), increase of AK Transneftproduct's tariffs and to rouble appreciation.

Pipeline tariffs paid by Rosneft and transportation costs grew to US\$ 4,226 million for the year ended 31 December 2007 from US\$ 3,226 million for the year ended 31 December 2006. This 31.0 % increase was mainly due to an increase in the volume of transported oil and petroleum products by the pipeline and railway tariffs of natural monopolies. Rosneft's crude oil export pipeline cost per tonne increased by 13.7 % for the year ended 31 December 2007 compared to the twelve months ended 31 December 2006 due to shorter transportation distance from production units to refining subsidiaries of Samara region recently acquired from Yukos. Crude oil domestic pipeline tariffs paid by Rosneft for transportation to refineries decreased by 7.9 % for the year ended 31 December 2007 compared to the twelve months ended 31 December 2006. This change was due to usage of alternative routes of transport due to acquisition of new refining and producing assets. Rosneft's cost per tonne of exported petroleum products transported via Transneftproduct increased by 227.4 % for the year ended 31 December 2007 compared to the twelve months ended 31 December 2006, due to the use of new logistical schemes and transportation routes ("Ventspils" and "Bryansk-Ventspils"), growth of AK Transneftproduct's tariffs and to rouble appreciation.

Pipeline tariffs paid by Rosneft and transportation costs grew to US\$ 3,226 million in 2006 from US\$ 2,231 million in 2005, a 44.6% increase due mainly to an increase in the volume of transported oil (e.g. non-CIS export crude oil volumes increased by 26.3%) and in the pipeline and railway tariffs of natural monopolies. Crude oil export pipeline tariffs paid by Rosneft increased by 14.9% in 2006 compared to 2005. Crude oil domestic pipeline tariffs paid by Rosneft for transportation to refineries increased by 24.4% in 2006 compared to 2005. Tariff per tonne of exported petroleum products transported via Transneft paid by Rosneft increased by 17.1% in 2006 compared to 2005

In the fourth quarter of 2007, Rosneft transported 88.8 million barrels (12.1 million tonnes) of crude oil via Transneft to domestic refineries and approximately 76.2 million barrels (10.4 million tonnes) for export sales via Transneft and the CPC, compared to approximately 43.9 million barrels (6.0 million tonnes) of deliveries to domestic refineries and 72.8 million barrels (10.0 million tonnes) for export sales in the fourth quarter of 2006.

For the year ended 31 December 2007, Rosneft transported 281.7 million barrels (38.5 million tonnes) of crude oil via Transneft to domestic refineries and approximately 284.4 million barrels (38.9 million tonnes) for export sales via Transneft and the CPC, compared to approximately 165.2 million barrels (22.58 million tonnes) of deliveries to domestic refineries and 269.5 million barrels (36.84 million tonnes) for export sales for the year ended 31 December 2006.

For the year ended 31 December 2005, Rosneft transported 157,9 million barrels (21,58 million tonnes) of crude oil via Transneft to domestic refineries and approximately 292,5 million barrels (38,98 million tonnes) for export sales via Transneft and the CPC.

In the fourth quarter of 2007, the Company transported 4.39 million tonnes of petroleum products to export, including 3.69 million tonnes by railroad, 0.58 million tonnes via pipelines and 0.12 million tonnes

using a combination of transportation means. In the fourth quarter of 2006, the Company transported 1.87 million tonnes of petroleum products, including 1.48 million tonnes by railroad, 0.08 million tonnes via pipelines and 0.31 million tonnes using a combination of transportation means. The change was explained primarily by the acquisition of new refining and producing assets.

For the year ended 31 December 2007, the Company transported 12.61 million tonnes of petroleum products to export, including 10.25 million tonnes by railroad, 1.50 million tonnes via pipelines and 0.86 million tonnes using a combination of transportation means. For the year ended 31 December 2006, the Company transported 8.12 million tonnes of petroleum products, including 6.56 million tonnes by railroad, 0.23 million tonnes via pipelines and 1.33 million tonnes using a combination of transportation means.

Crude oil railway cost per tonne related to domestic sales decreased by 5.8 % (in Rouble terms) and railway export cost per tonne increased by 7.8 % (in US\$ terms) in the fourth quarter of 2007 compared to the fourth quarter of 2006.

Crude oil railway domestic cost per tonne decreased by 3.5% (in Rouble terms) and railway cost per tonne related to export sales increased by 6.7% (in US\$ terms) for the year ended 31 December 2007 compared to year ended 31 December 2006.

Decrease in domestic transportation tariffs paid by Rosneft was due to usage of alternative routes of transportation in Samara region due to acquisition of new assets there.

Crude oil railway domestic tariffs paid by Rosneft increased by 17.0% and railway export tariffs paid by Rosneft increased by 6.0% in 2006 as compared to 2005. The main driver of domestic railroad tariffs' increase was the overall increase in RZD tariffs and the curtailment of the discount in early 2006 granted to Rosneft by RZD in 2005, for crude oil supplies to Komsomolskiy Refinery in the Far East of the Russian Federation. Increased transportation volumes were due to oil supplies to China under the long-term contract signed in January 2005 with CNPC (see also "Crude Oil Export Sales" above) in connection with the acquisition of Yuganskneftegaz.

Exploration Expenses

Exploration expenses mainly represent expenses relating to exploratory drilling, seismic and other geological and geophysical costs. Exploratory drilling costs are generally capitalised if commercial reserves of oil and gas are discovered, or written off as expenses in the current period in the event of unsuccessful exploration results.

In the fourth quarter of 2007, exploration expenses increased to US\$ 80 million from US\$ 77 million in fourth quarter 2006 or by 3.9 %. Slight increase was due to write off the exploration expenses of Kurmangazy project, which was offset by decrease in expenses of Sakhalin-4 and Sakhalin-5 covered by carried financing obtained from BP in 2007. Exploration expenses in the fourth quarter of 2007 included US\$ 28 million of exploration expenses for Tomskneft and Samaraneftgaz.

For the year ended 31 December 2007, exploration expenses decreased by US\$ 31 million, or 16.1% to US\$ 162 million from US\$ 193 million for the year ended 31 December 2006. The decrease was mainly due to a portion of the exploration expenses for the Sakhalin-4 and Sakhalin-5 projects being covered by carried financing obtained by Rosneft from BP in 2007. Exploration expenses of recently acquired assets comprised US\$ 36 million for the year ended 31 December 2007.

In 2006, exploration expenses were US\$ 193 million, an increase of US\$ 29 million, or 17.7%, as compared to 2005. The increase was mainly due to exploration expenses at the Sakhalin-5 and Kurmangazy projects and to a change in accounting for Sakhalin-1 to a proportional consolidation from 31 July 2006. See "— Significant acquisitions—Change in accounting for Sakhalin-1 PSA".

Depreciation, Depletion and Amortisation

Depreciation, depletion and amortisation includes depreciation of oil and gas producing assets, and other production and corporate assets.

Depreciation, depletion and amortisation was US\$ 862 million in the fourth quarter of 2007 compared to US\$ 402 million in the fourth quarter of 2006. The 114.4% increase was mainly due to a revaluation of fixed assets as a result of the Share Swap in the fourth quarter of 2006, acquisition of new assets and additional capital expenditures at the end of 2006. This increase was accompanied by an increase in average depletion rates for oil and gas properties in the fourth quarter of 2007 affected by Sakhalin PSA. Depreciation, depletion and amortisation for all the assets recently acquired from Yukos was US\$ 288 million in the fourth quarter 2007.

Depreciation, depletion and amortisation was US\$ 3,286 million for the year ended 31 December 2007 compared to US\$ 1,638 million for the year ended 31 December 2006. The 100.6 % increase was mainly due to a step-up in the value of fixed assets as a result of the Share Swap in the fourth quarter of 2006 and due to increased capital expenditures and acquisition of new assets, which resulted in an increased balance sheet value of fixed assets for the year ended 31 December 2007 compared to the year ended 31 December 2006. Capital expenditures increased primarily as a result of continued investments in Yuganskneftegaz and the Vankorskoye field. This increase was also resulted from the increase in average depletion rates for oil and gas properties to 6.8 % for the year ended 31 December 2007 from 6.1 % for the year ended 31 December 2006 affected by Sakhalin PSA and due to revaluation of oil and gas reserves by independent appraisals of DeGolie&McNaughton. Depreciation, depletion and amortization of all the assets recently acquired from Yukos was US\$ 536 million for the year ended 31 December 2007.

Depreciation, depletion and amortisation was US\$ 1,638 million in 2006 compared to US\$ 1,472 million in 2005. The 11.3% increase was mainly due to significant capital expenditures which resulted in increased balance sheet value of fixed assets in 2006 as compared to 2005 and a 7.7% increase in oil production, while the depletion rate remained relatively unchanged, at 6.6% in 2005 and 6.1% in 2006.

Taxes Other than Income Tax

Taxes other than income tax include the mineral production tax, the excise tax (mainly with respect to petroleum products), the unified social tax, the property tax and other taxes. The basis for the calculation of mineral production tax is described under —“Main Factors Affecting Results of Operations—Changes in Mineral Production Tax and Export Customs Duty” above. Taxes other than income tax have increased throughout the periods analysed, mainly due to the impact of the mineral extraction tax.

The following table sets forth Rosneft’s taxes other than income tax during the periods being analysed:

	For 3 months ended 31 December		For 12 months ended 31 December			% change for 3 months ended 31 December	% change for 12 months ended 31 December	% change for 12 months ended 31 December
	2007	2006	2007	2006	2005	2007-2006	2007-2006	2006-2005
	(million US\$)		(million US\$)			(%)	(%)	(%)
Mineral extraction tax	3,163	1,299	9,323	6,342	4,716	143.5%	47.0%	34.5%
Excise tax	277	202	861	329	286	37.3%	161.7%	15.0%
Social security	116	51	291	154	118	127.5%	88.3%	30.5%
Property tax	43	34	186	107	73	26.5%	73.8%	46.6%
Land tax	5	1	15	7	14	400.0%	100.0%	(50.0%)
Transportation tax	1	1	4	2	2	0.0%	100.0%	0.0%
Other taxes and payments	63	11	212	49	117	472.2%	332.7%	(58.1%)
Total taxes other than income tax	3,668	1,599	10,890	6,990	5,326	129.4%	55.8%	31.2%

Taxes other than income tax increased by 129.4 % to US\$ 3,668 million in the fourth quarter of 2007, compared to US\$ 1,599 million in the fourth quarter of 2006. The growth in taxes resulted mainly from taxes other than income tax of US\$ 693 million of the subsidiaries recently acquired from Yukos, as acquisition resulted in Rosneft bearing directly the excise tax, and an increase in export duty and mineral production tax per tonne due to higher prices for crude oil.

Taxes other than income tax increased by 55.8 % for the year ended 31 December 2007 to US\$ 10,890 million, compared to US\$ 6,990 million for the year ended 31 December 2006. The growth in taxes resulted mainly from taxes other than income tax of US\$ 1,805 million of the subsidiaries recently acquired from Yukos as acquisition resulted in Rosneft bearing directly the excise tax, and an increase in export duty and mineral production tax per tonne due to higher prices for crude oil.

Taxes other than income tax increased by 31.2% in 2006 to US\$ 6,990 million, compared to US\$ 5,326 million in 2005. The growth in taxes resulted mainly from an increase in mineral production tax of US\$ 1,626 million, or 34.5%, caused by a 7.7% increase in crude oil production and a 21.2% increase in the tax rate.

For the year ended 31 December 2007, the total amount of interest and penalties accrued in respect of the Yuganskneftegaz’ tax debt included penalties of US\$ 438 million, including US\$ 67 million for corporate income tax and US\$ 37 million for taxes other than income tax. Penalties for taxes other than income tax for

the year ended 31 December 2007 included US\$ 332 million for mineral production tax, US\$ 0.1 million for property tax, US\$ 0.1 million for unified social tax, US\$ 0.6 million for land tax and US\$ 38.2 million for other taxes.

In May 2007, by an Order of the Government of the Russian Federation, Rosneft was included in the list of strategic companies of Russia. As such, Rosneft became generally eligible for the tax restructuring process. Following the intention of the Company to proceed with the tax restructuring process in respect of OJSC Yuganskneftegaz back-taxes, the tax authorities retroactively cancelled the suspension of certain interest accruals for them to be fully included in the tax restructuring plan. These tax liabilities were already fully accrued in the consolidated financial statements in prior periods together with all penalties and a portion of interest before such interest accrual was suspended following the Company's applications for restructuring. As a result of the cancellation, additional interest of US\$ 456 million was due as of December 31, 2007. The total amount of interest and penalties payable as at December 31, 2007 with respect to tax liabilities of OJSC Yuganskneftegaz amounted to US\$ 1,000 million. The interest continued to accrue until the restructuring plan was approved by the Government of the Russian Federation and the respective regional and local government authorities, as discussed below. The total principle amount subject to tax restructuring provisions was US\$ 1,336 million.

In December 2007 by an Order of the Government of the Russian Federation Federal tax debt of the Company for amount of 42.3 billion roubles was restructured for a period of 5 years (through 2012 inclusively). In consolidated financial statement this debt has been reclassified to long-term obligations.

In first quarter of 2008 the rest of tax debt to regional and local budgets for the amount of US\$ 15.0 billion was fully restructured under conditions described above.

Export Customs Duty

Export customs duties payable by Rosneft include crude oil and petroleum product export customs duties. The export customs duties are discussed above under “—Main Factors Affecting Results of Operations—Changes in Mineral Production Tax and Export Customs Duty.” Export customs duties have increased as a percentage of total revenue throughout the periods analysed.

The following table sets forth Rosneft's export duties during the periods analysed:

	For 3 months ended 31 December		For 12 months ended 31 December			% change for 3 months ended 31 December	% change for 12 months ended 31 December	% change for 12 months ended 31 December
	2007	2006	2007	2006	2005	2007-2006	2007-2006	2006-2005
	(US\$ millions)		(US\$ millions)			(%)	(%)	(%)
Export duty for crude oil	3,467	3,037	10,754	9,763	5,322	14.2%	10.2%	83.4%
Export duty for petroleum products	868	363	2,278	1,377	942	139.1%	65.4%	46.2%
Total export customs duties	4,335	3,400	13,032	11,140	6,264	27.4%	16.9%	77.8%

The following table sets forth Rosneft's calculations of the export customs duty as a percentage of crude oil export sales revenues for the periods indicated:

	For 3 months ended 31 December		For 12 months ended 31 December		
	2007	2006	2007	2006	2005
	(US\$ per barrel, except %)		(US\$ per barrel, except %)		
Average Urals price	85.91	56.31	69.39	61.27	50.47
Customs duty as calculated per formula in customs legislation by average Urals price (without lag effect)	43.60	24.40	32.88	27.60	20.58
Average price of crude oil sold by Rosneft to non-CIS Countries	86.11	55.32	69.50	60.04	49.20
Export customs duty as % of average Urals prices as calculated	50.8%	43.3%	47.4%	45.0%	40.8%
	(US\$ million, except %)		(US\$ million, except %)		
Crude oil customs duties ⁽¹⁾	3,467	3,037	10,754	9,763	5,322
Crude oil export sales ⁽²⁾	9,199	5,348	28,725	21,513	15,377
Export customs duty as % of crude oil export sales ⁽²⁾	37.7%	56.8%	37.4%	45.4%	34.6%

(1) Until 1 January 2007, export duty was not payable on exports to the CIS countries that are members of the Customs Union, which are Belarus, Kazakhstan, Kirgiziya and Tadzhikistan. Starting from 1 January 2007 export customs duty is levied on export sales to Belarus.

(2) Excluding crude oil export sales where duties are not payable on exports.

For a description of calculation of the export customs duty under applicable Russian tax legislation, see “—Main Factors Affecting Results of Operations—Changes in Mineral Production Tax and Export Customs Duty—Export Customs Duty.” The impact of the export customs duty on Rosneft’s margins varies from period to period depending not only on the average Urals price per barrel during each period but also on the timing and direction of price movements within each period. This is due to the more rapid impact of price changes on Rosneft’s revenue determined under US GAAP than on the amount of export customs duty determined under the formula. The effect of this timing factor can be seen in the relative movements over time of “export customs duty as percentage of average Urals prices, as calculated” and “export customs duty as percentage of crude oil export sales” in the preceding table. The difference is also explained by the factor that export duty is not paid for oil produced by Sakhalin-1 project.

Export customs duty increased as a percentage of average Urals prices in the fourth quarter of 2007 compared to the fourth quarter of 2006, while it decreased as a percentage of crude oil export sales in the same period. Export customs duties were US\$ 4,335 million in the fourth quarter of 2007 compared to US\$ 3,400 million in the fourth quarter of 2006. This increase is explained by a 2.2 % growth in export volumes of petroleum products and a 2.2 % growth in export volumes of crude oil to Europe, accompanied by a raise in tariff of export duty of 16.9% to 18.3% depending on the type of hydrocarbons, and taking into account the lag in the calculation of the export duty rate by Russian Government. The increase also resulted from the introduction of export duty on crude oil exported from the Russian Federation to Belarus.

Export customs duty increased as a percentage of average Urals prices for the year ended 31 December 2007 compared to the year ended 31 December 2006, while it decreased as a percentage of crude oil export sales during the same period. This dynamics is explained by the lag described earlier under conditions of rising price for crude oil. Export customs duties were US\$ 13,032 million for the year ended 31 December 2007 compared to US\$ 11,140 million for the year ended 31 December 2006. The increase resulted from a growth in export volumes to non-CIS countries of 7.9 % for crude oil and 7.9 % for petroleum products and connected with change in tariffs of export customs duties, which ranged from a 4.6% decrease to a 5.4% increase, depending on the type of hydrocarbons. The increase also resulted from the introduction of export duty on crude oil exported from the Russian Federation to Belarus and export duties of US\$ 36 million of the subsidiaries recently acquired from Yukos.

Export customs duties were US\$ 11,140 million in 2006 compared to US\$ 6,264 million in 2005. The significant increase resulted from a 26.3% increase in the volumes of crude oil exported to the non-CIS countries and an increase in tariffs of export customs duties in the range of 47% to 57% depending on the type of hydrocarbons.

Operating Income

As a result of the factors discussed above, operating income increased by 807.8 % in the fourth quarter of 2007 compared to the fourth quarter 2006. As a percentage of total revenues, operating income was 25.4 % and 5.6 % in the fourth quarters of 2007 and 2006, respectively. As a percentage of revenues, operating income before taxes other than income tax and export customs duty was 74.0 % and 66.5% in the fourth quarters of 2007 and 2006, respectively.

As a result of the factors discussed above, operating income increased by 91.3 % for the year ended 31 December 2007 compared to the year ended 31 December 2006. As a percentage of total revenues, operating income was 21.8 % and 16.92 % for the years ended 31 December 2007 and 2006, respectively. As a percentage of revenues, operating income before taxes other than income tax and export customs duty was 70.4 % and 71.7 % for the years ended 31 December 2007 and 2006, respectively..

Other Income/(Expenses)

Interest Income

Interest income increased by 78.8 % to US\$ 59 million in the fourth quarter of 2007 from US\$ 33 million in the fourth quarter of 2006. These increases were mainly due to the growth in the banking activities.

Interest income increased by 58.5 % to US\$ 214 million for the year ended 31 December 2007 from US\$ 135 million for the year ended 31 December 2006. These increases were mainly due to the growth in the banking activities.

Interest Expense

Interest expense increased by 165.1 % to US\$ 403 million in the fourth quarter of 2007 compared to US\$ 152 million in the fourth quarter of 2006. In March 2007, Rosneft entered into loan agreements with a consortium of international banks for a total amount of US\$ 22.0 billion bearing interest at LIBOR plus 0.25-0.50% per annum depending on the final settlement date. These loans were drawn to finance the acquisition of subsidiaries from Yukos in the course of auctions for sales of these assets. As of 31 December 2007, US\$ 12.3 billion was outstanding under these loan agreements.

Interest expense increased by 103.0 % to US\$ 1,470 million for the year ended 31 December 2007 compared to US\$ 724 million for the year ended 31 December 2006. This increase resulted from the US\$ 22.0 billion loan as described above.

Interest expense decreased by 6.6% to US\$ 724 million in 2006 compared to US\$ 775 million in 2005. In April 2006, the Company entered into a contract improving conditions of existing loan agreements which decreased interest rates to LIBOR plus 0.7% (previously LIBOR plus 3%) for loans totalling US\$ 5,730 million as of 31 December 2005 and decreasing interest rates to LIBOR plus 0.65% (previously LIBOR plus 1.8-2.2%) for loans totalling US\$ 3,177 million as of 31 December 2005.

Loss on Disposal of Property, Plant and Equipment

Rosneft disposes of property, plant and equipment from time to time and writes off fixed assets related to social sphere. Loss on disposal of property, plant and equipment was US\$ 36 million in the fourth quarter of 2007, compared to a loss of US\$ 70 million in the fourth quarter of 2006. Loss on disposal of property, plant and equipment in subsidiaries recently acquired from Yukos was US\$ 11 million for the fourth quarter of 2007.

Loss on disposal of property, plant and equipment was US\$ 119 million for the year ended 31 December 2007, compared to a loss of US\$ 95 million for the year ended 31 December 2006. This increase was primarily due to a write-off of housing in Chechnya and the Russian Far East.

In 2006, loss from property, plant and equipment disposition was US\$ 95 million compared to a loss of US\$ 74 million in 2005 due to the write-off of certain social infrastructure assets which were financed by the Company.

Gain from Yukos Oil Company Bankruptcy Proceeds

In June 2007, the Company received RUB 294.3 billion (US\$ 11.5 billion at the CBR exchange rate as of as of the reception date) as a creditor in the Yukos bankruptcy. Out of this amount, US\$ 483 million was recorded as a repayment of debt receivable acquired earlier, US\$ 2.0 billion as collection of accounts receivable, including accounts receivable related to the new assets, and the remaining US\$ 8,970 million recorded as income in the consolidated statement of income. The Company used these proceeds to reduce the US\$ 22.0 billion in Company borrowings referred to above and to finance purchase of Yukos assets.

Gain on Disposal of Share in CJSC Sevmorneftegaz

In the first half of 2005, Rosneft sold a 50% interest in CJSC Sevmorneftegaz held by Purneftegaz to Gazprom for US\$ 1,344 million. Sevmorneftegaz is developing the Prirazlomnoye and Shtokmanovskoye fields in Yamalo-Nenetsky autonomous district. Under the terms of the sale, Gazprom paid for this interest in December 2004, while title to the interest passed to Gazprom in the second quarter of 2005. Gazprom also had the right to notify the Company not later than June 2005 of its intention to sell the purchased interest back to the Company, in which case the Company was obliged to repurchase and pay for it. Gazprom did not exercise this right. Accordingly, in June 2005, Rosneft recorded gain on the sale of its interest in CJSC Sevmorneftegaz in the amount of US\$ 1,303 million.

Other Income/(Expenses), Net

Other expenses, net, consist principally of social expenditures.

In the fourth quarter of 2007, other income/expenses, net, amounted to US\$ 20 million, compared to US\$ 251 million expenses in the fourth quarter of 2006. Other expenses of subsidiaries recently acquired from Yukos were US\$ 3 million in the fourth quarter of 2007.

For the year ended 31 December 2007, other expenses, net, were US\$ 195 million, compared to US\$ 320 million for the year ended 31 December 2006. This change was partially explained by a US\$ 98 million income related to the Company receiving title to a 100% interest in Yukos-Mamontovo for no consideration. See “—Significant Acquisitions—Other Significant Acquisitions—Other Significant Acquisitions Prior to 31 December 2007—Yukos-Mamontovo” Other income of subsidiaries recently acquired from Yukos were US\$ 35 million for the year ended 31 December 2007.

In 2006, other expenses, net, were US\$ 320 million, a 135.3% increase from 2005. This increase is mainly due to arbitration award and related expenses of US\$ 134 million accrued in 2006 as a result of an unfavourable award for the Company in the arbitration with Total E&P Vankor (see Note 25 to 2006 Financial Statements, “Commitments and contingencies”). In addition, in 2006 the Company spent US\$ 37 million for the construction of social facilities. The Company did not carry out such constructions in 2005. In 2005, other expenses, net, were US\$ 136 million, a 30.6% decrease from 2004.

Foreign Exchange Losses

Foreign exchange losses were US\$ 246 million in the fourth quarter of 2007 compared to US\$ 154 million loss in the fourth quarter of 2006. This increase in loss resulted from the impact of a further appreciation of the rouble against the US dollar together with net rouble-denominated monetary position in Income and other tax liabilities and Deferred tax liabilities at 31 December 2007. Foreign exchange losses were US\$ 409 million for 12 months ended 31 December 2007 compared to US\$ 470 million for 12 months ended 31 December 2006. The decrease in the foreign exchange losses resulted from the impact of the agreements for forward sale of US dollar-denominated revenue entered into by Rosneft in January 2007 in order to hedge currency risk.

Foreign exchange loss was US\$ 470 million in 2006 compared to a foreign exchange gain of US\$ 245 million in 2005. The loss resulted from the impact of the appreciation of the rouble against the U.S. dollar compared to its depreciation in 2005. As a result, the Company’s rouble-denominated net monetary liability position increased when denominated in U.S. dollars but remained unchanged when denominated in roubles. The rouble-denominated net monetary position was negative mainly due to Yuganskneftegaz current and deferred tax liabilities following its acquisition at the end of 2004 whereby accounts receivable were denominated in U.S. dollars due to a high proportion of export sales. The gain in 2005 resulted from the impact of the depreciation of the rouble against the U.S. dollar on the Company’s rouble-denominated monetary net liability position.

Income Tax Expense

The following table sets forth the Company’s effective income tax rate under US GAAP:

	For 3 months ended 31 December		For 12 months ended 31 December		
	2007	2006	2007	2006	2005
Effective income tax rate for Rosneft under US GAAP	36%	(575)%	28%	13%	26%

The Company does not pay taxes based on consolidated income before taxes under Russian law. Income tax is calculated for each subsidiary based on its profits in accordance with Russian accounting principles.

The US GAAP effective profit tax rate was 36 % in the fourth quarter of 2007 and 28 % for the year ended December 2007, and (575)% in the fourth quarter of 2006 and 13 % for the year ended December 2006, compared to the maximum rate of 24% established by the Russian tax legislation throughout the periods analysed.

The most significant factors influencing the effective income tax rate in the fourth quarter of 2007 and in 2007 were the impact of foreign exchange gain determined under US GAAP, which is not taxable and is included in income before income tax and minority interest, and the 4% income tax exemption under local regulations.

The most significant factors influencing the effective income tax rate in 2006 and in fourth quarter 2006 is the payment of income tax at 20% by Yuganskneftegaz and Purneftegaz resulting from regional tax benefits, the creation of a bad debt provision in tax accounting in relation to accounts receivable from Yukos recorded at zero fair value in the consolidated financial statements which resulted in a decrease in the current income tax of US\$ 539 million, and a decrease of US\$ 75 million in the deferred tax asset valuation allowance related to property, plant and equipment due to a change in estimates resulting from new circumstances increasing the chances of realisability of this asset.

As discussed above under “—Business Segments and Intersegment Sales,” Rosneft subsidiaries engage in significant intragroup transactions for which Rosneft management determines transfer prices. The Russian transfer pricing rules are vaguely drafted, leaving wide scope for interpretation by Russian tax authorities and courts. Due to the uncertainties in interpretation of transfer pricing legislation, the tax authorities may challenge the Group’s prices and propose an adjustment. If such price adjustments are upheld by the Russian courts and implemented, it could have an adverse effect on the Group’s financial condition and results of operations. The Company’s management believes that such transfer pricing related income tax positions taken by the Company are sustainable and will not have any significant negative impact on the Company’s consolidated financial position or results of operations.

Income tax expense was US\$ 1,711 million in the fourth quarter of 2007 compared to US\$ (724) million in the fourth quarter of 2006. Current income tax increased from US\$ 1,032 million in the fourth quarter of 2006 to US\$ 1,547 million in the fourth quarter of 2007, while deferred tax benefit decreased from US\$ 1,756 million to deferred tax expense of US\$ 164 million. Income tax for subsidiaries recently acquired from Yukos was US\$ -114 million in the fourth quarter of 2007, while current income tax for these subsidiaries was US\$ 82 million and deferred income tax benefit was US\$ 197 million. At the end of 2006, Rosneft recognised a deferred tax asset in the amount of US\$ 1,285 million recorded as a result of a favourable court decision on the Company’s claim for the lost profits against Yukos, whereby taxable non-operating income relating to the amount awarded by the court was recognised for Russian accounting tax purposes but not under US GAAP. Taxes paid in 2006 on this non-operating income were treated for US GAAP purposes as the creation of a deferred tax asset resulting in corresponding deferred tax benefit. This deferred tax asset was realised/reversed after receiving of payments over Yukos bankruptcy procedure in June and October 2007.

Income tax amounts to US\$ 4,906 million for the year ended 31 December 2007 compared to US\$ 540 million for the year ended 31 December 2006. Current income tax increased to US\$ 3,848 million for the year ended 31 December 2007 from US\$ 2,385 million for the year ended 31 December 2006, while deferred tax benefit decreased from US\$ 1,058 million to deferred tax expense of US\$ 1,845 million, primarily due to the income tax on income from Yukos bankruptcy proceeds as described above. The current income tax expense increased as explained above. Income tax for subsidiaries recently acquired from Yukos was US\$ 206 million for the year ended 31 December 2007 from the date of acquisition of these assets, while current income tax for these subsidiaries was US\$ 269 million and deferred income tax expense was US\$ 63 million.

Income tax expense was US\$ 540 million in 2006 compared to US\$ 1,609 million in 2005. Current income tax increased from US\$ 1,688 million in 2005 to US\$ 2,385 million in 2006, while deferred income tax benefit increased from US\$ 79 million in 2005 to US\$ 1,845 million in 2006, mainly due to the recognition of a deferred tax asset in the amount of US\$ 1,285 million recorded as a result of a favourable court decision of the Company’s claim for the lost profits against Yukos rendered at the end of 2006, whereby taxable non-operating income relating to the amount awarded by the court was recognised for Russian accounting tax purposes but not under U.S. GAAP. Taxes paid in 2006 on this non-operating income are treated for U.S. GAAP purposes as the creation of a deferred tax asset resulting in corresponding deferred tax benefit. This income is expected to reverse in 2007 when the non-operating income is recognised under U.S. GAAP when it is realised in the Yukos bankruptcy procedure.

Minority Interest in Subsidiaries’ Earnings, Net of Tax

As discussed above under “—Development of Rosneft—Consolidation via Share Swap,” there were significant minority interests in the Company’s subsidiaries during the periods analysed prior to the Share Swap in October 2006, which were eliminated as a result of the Share Swap.

Minority interest in subsidiaries’ earnings, net of tax, was US\$ 6 million in the fourth quarter of 2007 compared to US\$ 5 million of minority interest in subsidiaries losses in the fourth quarter of 2006.

Minority interest in subsidiaries' earnings, net of tax, was US\$ 21 million for the year ended 31 December 2007 compared to US\$ 92 million in 2006, mainly as a result of the consolidation via the Share Swap.

Minority interest in subsidiaries' earnings was US\$ 92 million in 2006 compared to US\$ 446 million in 2005, including the US\$ 167 million effect on the minority interest of the divestment in 2005 of the 50% interest in Sevmorneftegaz described above. A further influence on minority interest was a decrease in the net income of Yuganskneftegaz in 2006 due to foreign exchange losses on current and deferred tax liabilities.

Net Income

As a result of the factors discussed above, net income increased to US\$ 2,976 million in the fourth quarter of 2007 from US\$ 603 million in the fourth quarter of 2006. As a percentage of total revenues, net income was 18.0 % and 7.3 % in fourth quarters of 2007 and 2006, respectively.

As a result of the factors discussed above, net income increased to US\$ 12,862 million for the year ended 31 December 2007 from US\$ 3,533 million for the year ended 2006. As a percentage of total revenues, net income was 26.1% and 10.7 % for the year ended 31 December 2007 and 2006, respectively.

Net income decreased by 15.1% in 2006 to US\$ 3,533 million from US\$ 4,159 million in 2005.

Liquidity and Capital Resources

Cash Flows

The principal items of the statement of cash flows for periods being analysed are as follows:

	For 3 months ended 31 December		For 12 months ended 31 December			% change for 3 months ended 31 December	% change for 12 months ended 31 December	% change for 12 months ended 31 December
	2007	2006	2007	2006	2005	2007-2006	2007-2006	2006-2005
	(US\$ millions)		(US\$ millions)			times	times	times
Net cash provided by operating activities	4,022	(967)	17,110	2,593	2,941	5.1	6.5	(1.1)
Net cash used in investing activities	(2,414)	(1,261)	(20,095)	(6,516)	(2,322)	1.9	3.1	2.8
Net cash provided by financing activities	(1,584)	1,735	3,440	3,225	(458)	(1.9)	1.1	9.0

Net Cash Provided by Operating Activities

Net cash provided by operating activities amounted to US\$ 4,022 million in the fourth quarter of 2007 and US\$ 967 million were spent in the fourth quarter of 2006. The increase in net cash from the operating activities resulted mainly from an increase in the net income for the period that is reduced by an increase in working capital.

The increase in working capital in the fourth quarter of 2007 was the result of :

- An increase in accounts receivable of US\$ 993 million due to US\$ 479 million growth in export VAT, US\$ 1,143 million growth in trade receivable that is due to an increase in crude oil production volume and in production of petroleum products and processing, accompanied by an increase in domestic market prices and export prices; this increase was partially offset by receipt of receivables from Yukos bankruptcy proceeding
- US\$ 81 million increase in inventory due to an increase in balances of crude oil and petroleum products.
- US\$ 463 million increase in prepayments and other current assets due to an increase in prepayments for materials necessary for production.

Net cash increase, provided from operating activities in 2007 resulted from an increase in net income and income received from the Yukos bankruptcy process. Excluding income from the Yukos bankruptcy process, net cash from operating activities amounted to US\$ 6,103 million for 12 months 2007 that is compensated by increase in working capital.

The increase in working capital resulted from:

- An increase in accounts receivables of US\$ 4,935 million that is due to US\$ 1,937 million increase in export VAT, US\$ 2,636 million increase in trade receivables, resulting from the growth of crude oil and petroleum production and high domestic prices and export prices; this increase was partially offset by receipt of receivables from Yukos bankruptcy proceeding.
- Increase in inventory by US\$ 1,021 million caused by increase in crude oil and oil products balances resulted from the business growth.

Net cash provided by operating activities for the 12 months ended 31 December 2006 was US\$ 2,593 million in comparison with US\$ 2,941 million for the 12 months ended 31 December 2005. This decrease in cash provided by operating activity in 2006 was due to the taxes and income tax payments in amount of US\$ 1,285 million due to the court decision on Yukos bankruptcy proceeds.

Net Cash Used in Investing Activities

Net cash used in investing activities was US\$ 2,414 million in the fourth quarter of 2007 compared to US\$ 1,261 million in the fourth quarter of 2006. The increase mainly resulted from an increase in capital expenditures in the fourth quarter of 2007.

The increase in capital expenditures resulted from: increased investments in upstream subsidiaries (Yuganskneftegaz, Vankorneft), the acquisition of Yukos assets in July-August 2007 (see “—Significant Acquisitions—2007—Acquisition of Yukos Assets”), the acquisition of the shares of JV Antares, Oxoil Limited and LLC Rokada - Market in August-September 2007 (see — “Significant Acquisitions—2007—Other Significant Acquisitions—Other Significant Acquisitions Prior to 31 December 2007”), and from the acquisition of construction materials presented as pipes, spare parts and etc. that are used for drilling of oil wells and construction of the infrastructure (see “Capital expenditures”), and of the equipment and construction in progress in Khanty-Mansiysk, Samara and Tomsk regions.

Net cash used in investing activities was US\$ 20,095 million for the 12 months ended 31 December 2007 compared to US\$ 6,516 million for the 12 months ended 31 December 2006. Net cash used in investing activities in 2007 included US\$ 19,075 million (excluding cash used for the purchase of shares) cash used for the acquisition of Yukos assets and other assets at auctions and US\$ 3,400 billion received as an advance payment for the sale of 50% of Tomskneft. Capital expenditures accounted for US\$ 6,870 million for the 12 months ended 31 December 2007 and US\$ 4,378 million for the 12 months ended 31 December 2006. The increase in capital expenditures resulted from the factors described above.

Net cash used in investing activities was US\$ 6,516 million in 2006 compared to US\$ 2,322 million in 2005. The increase is principally due to higher capital expenditures amounting to US\$ 3,462 million, repayment of Sakhalin-1 financing in the amount of US\$ 1,339 million, acquisition of licenses, net purchases of short-term investments and the acquisition of Yukos debt from a consortium of Western banks in the amount of US\$ 483 million, of which US\$ 463 million was included in the cash flow statement for 2006.

Net Cash Provided by Financing Activities

Net cash used in the financing activities was US\$ 1,584 million in the fourth quarter of 2007 compared to US\$ 1,735 million provided in the fourth quarter of 2006. The decrease in cash provided by financing activity in 2007 was primarily due to payments of bridge loans (please see - “Debt Obligations”).

Net cash provided by financing activities was US\$ 3,440 million for the 12 months ended 31 December 2007 compared to US\$ 3,225 million for the 12 months ended 31 December 2006. The increase was primarily due to US\$ 22 billion loans provided by a syndicate of international banks, US\$ 9.2 billion of which were repaid out of Yukos bankruptcy proceeds. Also Rosneft repaid previously obtained loans in the amount of US\$ 1.5 billion from Yukos bankruptcy proceeds and other free cash. In addition, Rosneft purchased treasury stock for a total consideration of US\$ 7,521 million.

Net cash provided by financing activities was US\$ 3,225 million in 2006 compared to net cash used in financing activities of US\$ 458 million in 2005. The change was primarily due to US\$ 2,115 million of proceeds from the Ordinary Share issue as part of the Company’s IPO and significant investments received in 2006 in comparison with 2005.

Capital Expenditures

The table below sets forth Rosneft's total capital expenditures by types of activities, as well as its licence acquisition costs, for the periods being analysed:

	For 3 months ended 31 December		For 12 months ended 31 December			% change for 3 months ended 31 December	% change for 12 months ended 31 December	% change for 12 months ended 31 December
	2007	2006	2007	2006	2005	2007-2006	2007-2006	2006-2005
	(US\$ millions)		(US\$ millions)			(%)	(%)	(%)
Yuganskneftegaz	710	203	2,185	1,181	932	249.7%	85.0%	26.7%
Vankorskoye field	292	123	1,009	469	12	137.4%	115.1%	3,808%
Purneftegaz	163	143	423	204	274	13.9%	107.3%	(25.5)%
Severnaya Neft	58	56	212	140	192	3.5%	51.4%	(27.1)%
Tomskneft	123	-	233	-	-	100.0%	100.0%	-
Samaraneftegaz	76	-	115	-	-	100.0%	100.0%	-
Other ¹	170	280	432	641	196	(39.2)%	(32.6)%	227.0%
Total upstream segment	1,592	805	4,609	2,635	1,606	97.7%	74.9%	64.1%
The Company	39	-	99	14	25	100%	607.2%	(44.0)%
Tuapse refinery	58	72	106	77	17	(19.4)%	37.6%	352.9%
Komsomolsk refinery	17	54	61	58	61	(68.5)%	5.1%	(4.9)%
Angarsk refinery	27	-	80	-	-	100.0%	100.0%	-
Achinsk refinery	38	-	62	-	-	100.0%	100.0%	-
Syzran refinery	22	-	31	-	-	100.0%	100.0%	-
NovoKuibyshev refinery	31	-	44	-	-	100.0%	100.0%	-
Kuibyshev refinery	26	-	52	-	-	100.0%	100.0%	-
Marketing Business Units and others ²	144	202	458	325	200	(28.7)%	40.9%	62.5%
Total downstream	402	328	993	474	303	22.6%	109.4%	56.4%
Other activities	202	75	329	184	35	169.3%	78.9%	425.0%
Subtotal capital expenditures	2,196	1,208	5,931	3,293	1,944	81.7%	80.1%	69.3%
Net increase in construction materials	46	122	309	169	-	(62.3)%	82.8%	-
Other former Yukos assets	-	-	540	-	-	-	100.0%	-
Total capital expenditures and capex acquisition	2,242	1,330	6,780	3,462	1,944	68.5%	95.8%	78.1%
Licence acquisition costs	38	42	90	916	146	(9.5)%	(90.2)%	527.4%
Total capital expenditures and acquisition of licences	2,280	1,372	6,870	4,378	2,090	66.1%	56.9%	109.5%

¹ Including: Krasnodarneftegaz, Stavropolneftegaz, Sakhalin1, Grozneftegaz etc

² Relating to companies providing processing, transferring and storage services

Rosneft's total capital expenditures increased by 68.5 % or by US\$ 912 million to US\$ 2,242 million in the fourth quarter of 2007 compared to US\$ 1,330 million in the fourth quarter of 2006. This increase was primarily driven by the upstream segment, where capital expenditures increased by 97.7%, or by US\$ 787 million, accompanied by a US\$ 74 million increase in the downstream segment. The growth in the upstream segment was mainly attributable to investments in Yuganskneftegaz and the Vankorskoye field, as well as in Tomskneft and Samaraneftegaz, which Rosneft acquired in May 2007. The growth in the capital expenditures in downstream segment was mainly attributable to the new refineries that Rosneft acquired in May 2007, the Angarsk, Achinsk, Syzran, Kuibyshev and Novokuibyshev refineries.

Rosneft's total capital expenditures increased by 95.8 % or by US\$ 3,318 million to US\$ 6,780 million for 12 months ended 31 December 2007 compared to US\$ 3,462 million in 2006. This increase was primarily driven by the upstream segment, where capital expenditures increased by 74.9%, or by US\$ 1,974 million, accompanied by a US\$ 523 million increase in the downstream segment.

Rosneft's total capital expenditures increased by 78.1% or by US\$ 1,518 million to US\$ 3,462 million in 2006 compared to US\$ 1,944 million in 2005. The increase in capital expenditures in 2006 was primarily driven by the upstream segment, where capital expenditures increased by 64.1%, or by US\$ 1,029 million. This

growth was mainly attributable to investments in Yuganskneftegaz, new Stavropolneftegaz fields and the Vankorskoye field. Licence acquisition costs in 2006 totalled US\$ 916 million, compared to US\$ 146 million in 2005 and US\$ nil million in 2004

Capital expenditures in the downstream segment were US\$ 474 million in 2006, an increase of 56.4% in comparison with US\$ 303 million in 2005 as a result of expansion of Rosneft's network of filling stations.

Capital expenditures for other activities increased by 169.3 %, or by US\$ 127 million, in the fourth quarter of 2007, compared to US\$ 75 million in the fourth quarter of 2006. The increase for other activities mainly resulted from a growth in capital expenditures of the Company's service companies, such as RN-Burenie and other new service assets.

Capital expenditures for other activities increased by 78.9%, or by US\$ 145 million, in 2007, compared to US\$ 184 million in 2006. The increase for other activities mainly resulted from a growth in capital expenditures of the Company's service companies, such as RN-Burenie, as well as, other new acquired service companies.

Capital expenditures for other activities increased by US\$ 149 million amounting to US\$ 184 million in 2006, primarily due to investments in the construction of twin-hull shuttle oil tankers.

Starting from the fourth quarter of 2006 the Company's subsidiaries purchase construction materials and sell the materials to contractors that provide construction and drilling services on subsidiaries' wells. The balance of unused construction materials in the amount of US\$ 309 million is included in the capital expenses under US GAAP rules due to the nature of the cash outflow.

During Yukos bankruptcy process (See- "Significant acquisition- 2007- Purchase of Yukos assets") Rosneft purchased certain equipments and construction in progress in Khanti-Mansiysk, Samara and Tomsk regions. The total amount of purchases was US\$ 540 million.

The total amount of capital investments relating to the assets recently acquired from Yukos were US\$ 761 million from the date of their acquisition to 31 December 2007, including US\$ 348 million in the upstream segment (including Tomskneft capital expenses of US\$ 233 million), US\$ 373 million in the downstream segment and US\$ 40 million in the other segment.

In addition to capital expenditures described above, Rosneft made acquisitions and increased its shareholdings in certain other subsidiaries. See "—Significant Acquisitions" and "—Development of Rosneft— Increased Stakes in Subsidiaries."

Debt Obligations

Over the past few years, Rosneft has raised significant amounts of funds through net additional short-term debt and long-term loans to supplement the net cash generated by Rosneft's operating activities. These funds have been used to fund the capital expenditures required to develop Rosneft's upstream and downstream operations and to purchase new assets and licences. Most of loans obtained were used with the purpose of financing the acquisition of new assets in 2007.

Rosneft's total loans and borrowings increased to US\$ 27,273 million as of 31 December 2007 from US\$ 13,829 million as of 31 December 2006.

In February-May 2007, Rosneft drew US\$ 24.5 billion of bridge loans to participate in auctions for the sales of Yukos assets and general corporate purposes. In May 2007 part of the received loans in amount of US\$ 2.5 billion was repaid, by loans received from a consortium of international banks in the total amount of US\$ 2 billion, bearing interest at LIBOR plus 0.5% per annum for the first three years and LIBOR plus 0.575% per annum for the remaining two years. Additional syndication under this loan agreement resulted in an increase in the facility to US\$ 3,1 billion in July 2007.

Rosneft's strategy has been to finance its growth primarily with long-term borrowings, which are predominantly denominated in US dollars. Rosneft's long-term borrowings (excluding the current portion of long-term debt) increased to US\$ 11,723 million as of 31 December 2007, from US\$ 7,402 million as of 31 December 2006. The weighted average rate of interest on Rosneft's long-term loans denominated in US dollars was 5.22% and 5.96% per annum (LIBOR plus 0.62% and LIBOR plus 0.64%) as of 31 December 2007 and 31 December 2006, respectively.

As of 31 December 2007, the bank loans raised for funding the acquisition of Yuganskneftegaz represent a long-term loan obtained through a government-owned bank at a rate of LIBOR plus 0.7% per annum

repayable in equal monthly instalments. It is scheduled for repayment in 2011 and is secured by pledging the Company's receivables under a long-term contract for the supply of crude oil.

Long-term loans are generally secured by oil export contracts. Under the terms of such contracts, if the Company fails to repay debt in time, the lender is usually provided with an express right of claim for contractual revenue that must be remitted directly to US dollar denominated accounts opened with the creditor banks. As of 31 December 2007 and 31 December 2006, 37.1% and 68.3%, respectively, of Rosneft's borrowings were secured by crude oil export contracts (excluding export to the CIS). As of 31 December 2007 and 31 December 2006, pledged oil exports as a percentage of total crude oil export sales constituted 37.1% and 31.7%, respectively.

Rosneft's short-term borrowings (including the current portion of long-term debt) increased to US\$ 15,550 million as of 31 December 2007, from US\$ 6,427 million as of 31 December 2006. US dollar-denominated short-term loans represent loans received from a consortium of international banks, bearing interest at LIBOR plus 0.45% per annum, and inter-bank loans entered into by the Company's subsidiary bank VBRR, bearing interest at LIBOR plus 1.15% to 1.2% per annum.

As of 31 December 2007, the outstanding amount of the bridge loans raised in March-May 2007 for participation in auction for the sales of Yukos assets and general corporate purposes that was not refinanced was US\$ 11.7 billion. The loans received from the consortium of international banks were drawn to finance the acquisition of certain assets during the auctions for sales of these assets.

In June-August 2007, the Company received one-year foreign currency loans from several Russian state-controlled banks in the total amount of US\$ 1,580 million bearing interest at 6.75%-7.0% per annum. The rouble-denominated loans represent inter-bank loans raised by the Company's subsidiary bank VBRR bearing interest ranging from 4.5% to 9.5% per annum.

By December 2007, the Company acquired long-term and short-term debt with an aggregate amount of US\$ 2,246 million through the acquisition of Yukos assets in bankruptcy auctions starting in May 2007 and through subsequent acquisitions of Yukos assets from the winners of certain of such auctions. Certain of this acquired debt was eliminated on consolidation, leaving US\$ 1,795 million on Rosneft's balance sheet as of 31 December 2007.

The acquired debt reflected in the balance sheet as of 31 December 2007 included promissory notes (face amount and interest) in the amount of US\$ 1,616 million, of which US\$ 1,016 million was long-term promissory notes and US\$ 600 million was short-term promissory notes.

As of 31 December 2007, total short-term promissory notes included approximately US\$ 908 million due on demand (including promissory notes issued by Yuganskneftegaz), which, if presented and payable, could affect Rosneft's liquidity.

As discussed in Note 16 to the Interim Financial Statements, the Company is obliged to comply with a number of restrictive financial and other covenants contained within its loan agreements. Restrictive covenants include maintaining certain financial ratios. As a result of the Company's acquisition of Yuganskneftegaz in December 2004 and the resulting debt incurred and assets and liabilities, including consolidated contingent liabilities, the Company was not in compliance with various financial and other covenants of existing loan agreements as of that date. In July 2005, the creditors waived violations related to restrictive financial ratios and agreed to amend the financial ratio covenants in line with Rosneft's new structure and scope of activities. The creditors also waived other events of default arising from the breach of other covenant provisions. With effect from 1 January 2007, the creditors granted amendments to the loan agreements which remove these provisions and have included new waivers which state that the Company must:

- redeem, secure, discharge in full or restructure (and comply with any restructuring plans once it is agreed upon) all Yuganskneftegaz's tax liabilities by 3 January 2009 (extended from 3 January 2008 by waivers obtained in December 2007); and
- pay any arbitration award relating to the Moravel litigation or the Yukos Capital S.à r.l. litigation if any such arbitration award is granted by a court of the Russian Federation, within the time frame provided for such payment under Russian Law.

These conditions also apply to certain new borrowings obtained in 2007. As of 31 December 2007, following the amendments granted effective 1 January 2007, the Company was in compliance with all restrictive financial and other covenants contained within its loan agreements.

In November 2007, Rosneft obtained waivers from its principal lenders, effective through 3 January 2009, in respect of the non-satisfaction by Samaraneftgaz of two arbitral awards of the ICC International

Court of Arbitration in favour of Yukos Capital S.à r.l. Rosneft also obtained in November 2007 waivers in respect of the completion of the sale of a 50% interest in Tomskneft.

The following table shows the scheduled maturities of Rosneft's long-term debt outstanding as of 31 December 2007 (excluding Tomskneft's debt):

	<u>(US\$ millions)</u>
2008	2,920
2009	4,939
2010	3,577
2011	1,713
2012 and after	<u>1,494</u>
Total long-term debt	<u>14,643</u>

In February 2008, the Company raised a syndicated loan for US\$ 3 billion that was provided by a group of international banks at the interest rate of LIBOR plus 0.95%. The loan matures in 5 years and is secured by oil export contracts. The funds are to be used for refinancing of short-term loans due.

In March 2008, the Company repaid a portion of the bridge financing in the amount of US\$ 2.23 billion and during the first quarter of 2008 the Company also meet planned repayments of the bank facilities in the amount of US\$ 0.57 billion scheduled on that time period.

In the first quarter 2008 the Company used the right for extension of short-term loan agreement received from a consortium of international banks in the amount of US\$ 6.5 billion for the next 6 months, under interest rate at LIBOR plus 0.50% annual interest rate.

Key Financial Ratios

Rosneft monitors and evaluates its activities on an ongoing basis. Key financial ratios for the periods indicated are set forth below:

	For 3 months ended 31 December		For 12 months ended 31 December		
	2007	2006	2007	2006	2005
EBITDA margin	30.8%	10.6%	29.4%	21.9%	29.7%
Adjusted net income margin before minority interest	13.2%	7.3%	13.2%	10.9%	15.6%
Net debt to capital employed ratio	0.48	0.38	0.48	0.38	0.54
Net debt to adjusted EBITDA ratio, annualised	1.29	3.82	1.82	1.83	1.57
Current ratio	0.68	0.57	0.68	0.87	0.72
Return on average capital employed (ROACE)	24.1%	17.0%	18.6%	18.1%	22.3%
Return on average equity (ROAE)	34.4%	15.2%	25.6%	23.0%	49.2%
			(US \$)		
EBITDA/bbl	25.65	5.87	20.29	12.63	13.23
EBITDA/boe	22.91	5.16	17.96	11.07	11.57
Upstream capital expenditure/bbl	8.04	5.42	6.47	4.57	3.00
Upstream capital expenditure/boe	7.17	4.76	5.73	4.02	2.63
Upstream operating expenses/bbl	3.63	3.23	3.48	2.84	2.49
Upstream operating expenses/boe	3.24	2.84	3.08	2.49	2.18
Adjusted free cash flow before interest/bbl	2.10	(14.36)	0.79	(1.85)	3.16
Adjusted free cash flow before interest/boe	1.88	(12.64)	0.70	(1.62)	2.77

The Company considers EBITDA/bbl, ROACE, ROAE, upstream operating expenses/bbl, upstream operating expenses/boe and the related indicators as important measures of its operating performance. In addition, these measures are frequently used by financial analysts, investors and other interested parties in the evaluation of oil and gas companies. These measures have limitations as analytical tools and should not be considered in isolation, or as a substitute for analysis of the Company's operating results as reported under US GAAP.

EBITDA/bbl and EBITDA/boe are calculated for any period by dividing EBITDA for that period by the barrels of crude oil or barrels of oil equivalent, respectively, produced during that period. No adjustments to these measures are made to take into account the effect of changes in inventories during the period.

Upstream capital expenditures/bbl and upstream capital expenditures/boe are calculated for any period by dividing the capital expenditures in the upstream segment during that period by the barrels of crude oil or barrels of oil equivalent, respectively, produced during that period. No adjustments to these measures are made to take into account the effect of changes in inventories during the period.

Upstream operating expenses/bbl and upstream operating expenses/boe are calculated for any period by dividing the production and operating expenses of the upstream segment during that period by the barrels of crude oil or barrels of oil equivalent, respectively, produced during that period. No adjustments to these measures are made to take into account the effect of changes in inventories during the period.

Adjusted free cash flow before interest/bbl and adjusted free cash flow before interest/boe are calculated for any period by dividing adjusted free cash flow before interest during that period by the barrels of crude oil or barrels of oil equivalent, respectively, produced during that period. Adjusted free cash flow before interest is net cash provided by operating activities minus capital expenditures plus cash interest payments. Licence acquisition costs are not included in capital expenditures. No adjustments to these measures are made to take into account the effect of changes in inventories during the period.

Upstream operating expenses include lifting costs, and the costs of gathering, treating, processing and storing the crude oil and gas in the fields and delivering the crude oil and gas to a main pipeline (e.g., a Transneft trunk pipeline transshipment point). Upstream operating expenses exclude a portion of the costs relating to intersegment transactions, mainly operating leases relating to certain oil and gas facilities. Upstream operating expenses include for 2006 similar operating leases between Yuganskneftegaz and service entities controlled by Yukos. One of these entities, Yukos-Mamontovo, has been transferred to Rosneft in April 2007 pursuant to a court decision and amounts in respect of these operating leases will be excluded as intersegment transactions going forward. Rosneft believes these exclusions are appropriate because if the leased oil and gas facilities had been owned by the upstream segment instead of being leased by it from another segment, depreciation expense would have accrued instead of lease expense, and that depreciation expense would not have been included in upstream operating expenses.

The following tables set forth relevant figures relating to these measures for the periods indicated:

Upstream Measures

	For 3 months ended 31 December		For 12 months ended 31 December		
	2007	2006	2007	2006	2005
Upstream capital expenditures ⁽¹⁾ (US\$ millions)	1,592	805	4,609	2,635	1,606
Upstream operating expenses (US\$ millions)	720	480	2,482	1,632	1,333
Barrels of crude oil produced (millions)	198.13	148.65	712.83	576.32	535.16
Barrels of oil equivalent produced (millions)	221.90	168.95	804.90	656.15	611.70

(1) Excluding licence acquisition costs.

Calculation of Adjusted Free Cash Flow before Interest

	For 3 months ended 31 December		For 12 months ended 31 December		
	2007	2006	2007	2006	2005
			(US\$ millions)		
Net cash provided by operating activities	4,022	(967)	17,110	2,593	2,941
Capital expenditures ⁽¹⁾	(2,242)	(1,330)	(6,780)	(3,462)	(1,944)
Free cash flow	1,770	(2,297)	10,330	(869)	997
License acquisition costs	(38)	(41)	(90)	(916)	(146)
Net proceeds from Yukos bankruptcy	(1,691)	-	(11,007) ³	-	-
Cash interest payments ⁽²⁾	366	204	1,331	718	696
Adjusted free cash flow before interest	417	(2,134)	564	(1,066)	1,693

(1) Excluding licence acquisition costs.

(2) Cash interest payments, whether capitalised or expensed.

(3) Excluding the acquisition of US\$ 483 million of debt receivable that is included in the net cash from investing activities

Calculation of EBITDA Margin

	For 3 months ended 31 December		For 12 months ended 31 December		
	2007	2006	2007	2006	2005
			(US\$ millions, except %)		
Net income	2,976	603	12,862	3,533	4,159
Minority interest in subsidiaries' earnings	6	(5)	21	92	446
Income tax expense	1,711	(724)	4,906	540	1,609
Total other (income)/expenses	(508)	587	(7,068)	1,439	(692)
Operating income	4,185	461	10,721	5,604	5,522
Interest accrued in relation to Yuganskneftegaz tax liabilities for 1999-2004	1	-	374	(13)	50
Accretion expense ⁽¹⁾	36	9	78	34	35
Depreciation, depletion and amortisation	862	402	3,286	1,638	1,472
Adjusted EBITDA	5,084	872	14,459	7,263	7,079
Total revenues	16,493	8,219	49,216	33,099	23,863
Adjusted EBITDA margin	30.8%	10.6%	29.4%	21.9%	29.7%

(1) Unwinding of discount related to asset retirement obligations.

Calculation of Adjusted Net Income Margin before Minority Interest

	For 3 months ended 31 December		For 12 months ended 31 December		
	2007	2006	2007	2006	2005
	(US\$ millions, except %)				
Net income	2,976	603	12,862	3,533	4,159
Minority interest in subsidiaries' earnings	6	(5)	21	92	446
Gain on disposal of share in CJSC Sevmorneftegaz	-	-	-	-	(1,303)
Tax on gain on disposal of share in CJSC Sevmorneftegaz	-	-	-	-	313
Interest accrued in relation to Yuganskneftegaz tax liabilities for 1999-2004	1	-	438	(13)	116
Income from Yukos bankruptcy proceeds ¹	(1,050)	-	(8,970)	-	-
Income tax from Yukos bankruptcy proceeds ¹	252	-	2,153	-	-
Adjusted net income before minority interest in subsidiaries' earnings	2,184	598	6,504	3,612	3,731
Sales revenues	16,493	8,219	49,216	33,099	23,863
Adjusted net income margin before minority interest in subsidiaries' earnings	13.2%	7.3%	13.2%	10.9%	15.6%

¹ This item is excluded because it is unusual both in terms of its magnitude and nature.

Calculation of Capital Employed and Related Indicators

	For 12 months ended 31 December		
	2007	2006	2005
	(US\$ millions)		
Short-term loans and current portion of long-term debt	15,550	6,427	4,005
Long-term debt	11,723	7,402	8,198
Cash and cash equivalents	(998)	(505)	(1,173)
Net debt	26,275	13,324	11,030
Shareholders' equity	28,440	21,875	7,433
Minority interest in subsidiaries' earnings	277	225	1,860
Equity	28,717	22,100	9,293
Capital employed	54,992	35,424	20,323
Average equity, including minority interest⁽¹⁾	25,409	15,697	7,582
Average capital employed	45,208	27,874	19,451

(1) Average equity including minority interest is calculated as a simple average of the equity including minority interest at the start and end of the given period.

(2) Average capital employed is calculated as a simple average of the capital employed at the start and the end of the given period.

Calculation of Return on Average Capital Employed (ROACE)

	For 3 months ended 31 December		For 12 months ended 31 December		
	2007	2006	2007	2006	2005
	(US\$ millions, except %)				
Operating income	4,185	461	10,721	5,604	5,522
Income tax expense	(1,711)	724	(4,906)	(540)	(1,609)
Income tax on gain on disposal of share in CJSC Sevmorneftegaz ⁽¹⁾	-	-	-	-	313
Income tax from Yukos bankruptcy proceeds ⁽¹⁾	252	-	2,153	-	-
Interest accrued in relation to Yuganskneftegaz tax liabilities for 1999-2004	1	-	438	(13)	116
Return used for calculation of ROACE	2,727	1,185	(8,406)	5,051	4,342
Average capital employed	45,208	27,874	45,208	27,874	19,451
ROACE	24.1%	17.0%	18.6%	18.1%	22.3%

(1) This item is excluded because it is unusual both in terms of its magnitude and nature.

Calculation of Return on Average Equity (ROAE)

	For 3 months ended 31 December		For 12 months ended 31 December		
	2007	2006	2007	2006	2005
	(US\$ millions, except %)				
Adjusted net income before minority interest in subsidiaries' earnings	2,184	598	6,504	3,612	3,731
Average equity, including minority interest	25,409	15,697	22,409	15,697	7,582
ROAE, annualized where appropriate	34.4%	15.2%	25.6%	23.0%	49.2%