ROSNEFT

ANNUAL REPORT 2007

- Energy Security
- Technological Advancement
- Continuous Growth
- Sustainable Development
- Transparency

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Regions of Rosneft Operation

LEGEND

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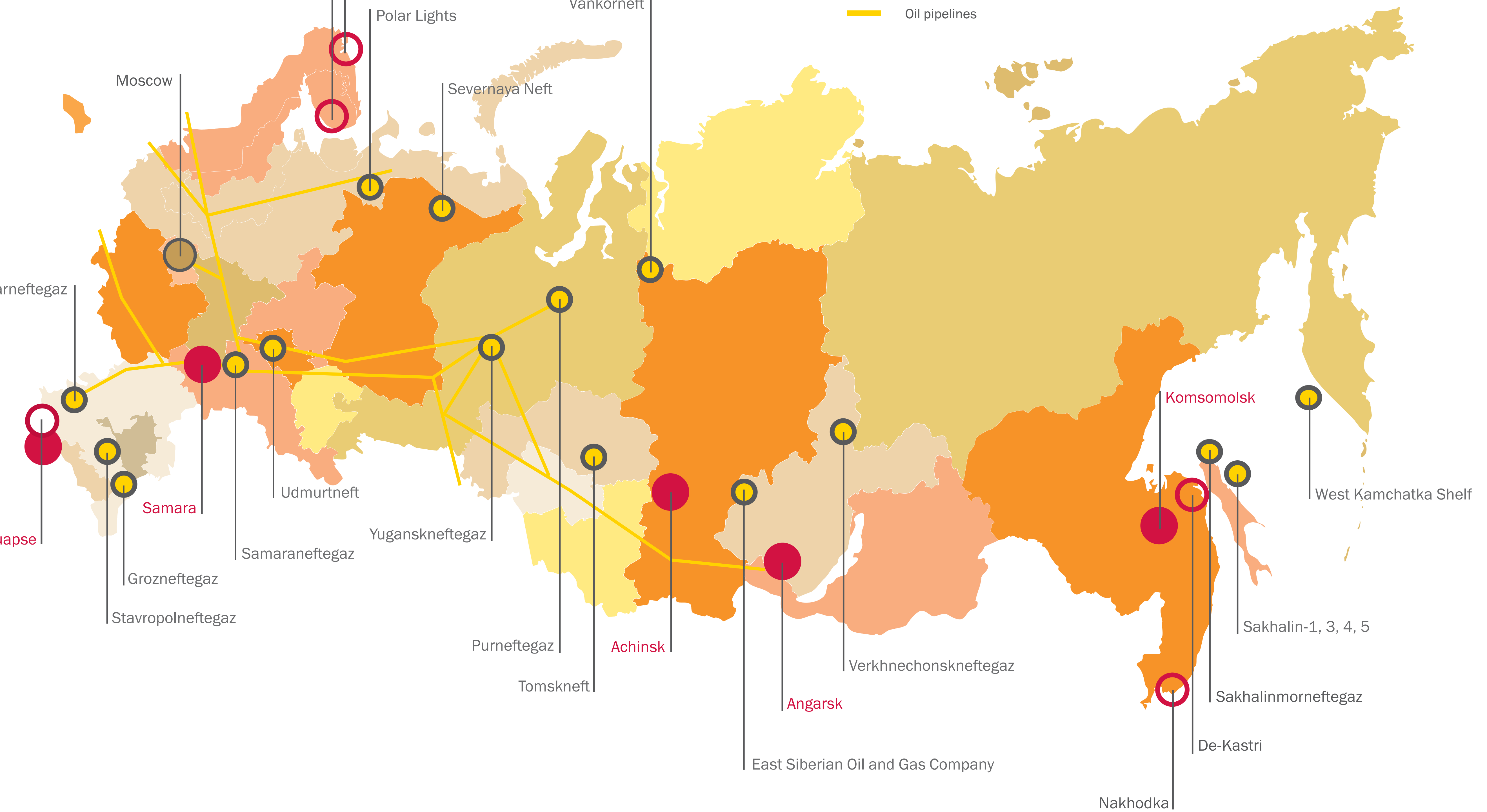


Rosneft's superb performance in 2007 is particularly gratifying as it dispels the common lack of confidence in a positive outlook for enterprises with majority state ownership

IGOR SECHIN
Chairman of Rosneft Board of Directors

Message from the Chairman

Dear Shareholder,

In 2007, Rosneft gained the lead in the Russian fuel and energy industry in terms of crude output, added hydrocarbon reserves, unit operating costs and capital expenditures, as well as other key performance indicators. Furthermore, Rosneft has gradually evolved into a most dynamic global oil and gas company.

The acquisition of new strategic assets and comprehensive exploration and development activities at major upstream enterprises enabled Rosneft to hit a record 100 mln tonne crude output (over two mln barrels per day). Steadily growing production at Yuganskneftegaz and Sakhalin-1 was also largely conducive to achieving this milestone.

Due to streamlined integration of new downstream and upstream assets, the Company has become the largest national oil producer operating in 50 regions of the Russian Federation, and managed to better align its production and refining business segments. Rosneft's superb performance in 2007 is particularly gratifying as it dispels the common lack of confidence in a positive outlook for enterprises with majority state ownership.

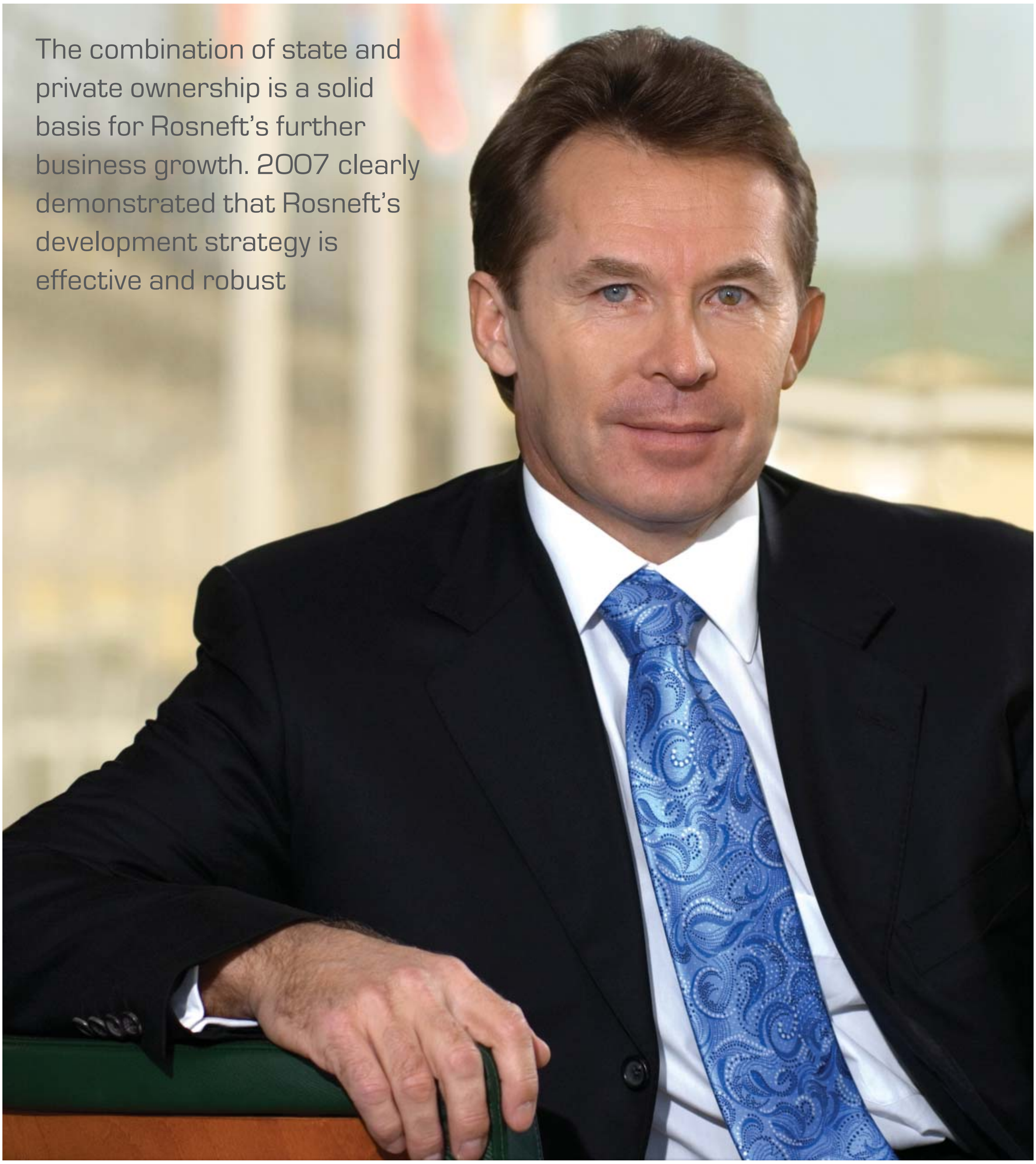
Taking the Company public in 2006 allowed us to further extend Rosneft's development potential. As a result of the IPO, almost 200,000 companies and individuals became Rosneft shareholders. As a public company, we can build on more diverse fundraising options that ensure timely implementation of capital-intensive projects, and take advantage of stronger corporate culture, which is crucial to promoting communication with foreign partners.

Sustained development of upstream operations is further supported by a comprehensive exploration portfolio in the regions that will soon grow to replace traditional areas of hydrocarbon production. The Company is implementing a number of promising projects in East Siberia that has a truly remarkable hydrocarbon potential, and several strategic shelf projects in the Far East, including West Kamchatka shelf. Some of these developments are being carried out in close collaboration with the largest global oil and gas companies.

As the leading national oil company, Rosneft is now better positioned to foster cooperation with major players in the international petroleum market and provide a more significant contribution to the world's energy supply. I have every confidence that Rosneft will sustain its leadership in the national oil industry, and intensify efforts to deliver greater value to all its numerous shareholders. In particular, this can be made possible due to continuous cost reduction, improved operating efficiency, higher quality of petroleum products and services, as well as ongoing introduction of innovative technology.

I am convinced that all these measures will enable Rosneft to deliver on its key strategic objectives, which include supporting Russia's long-term economic development and social stability, environmental protection, and efficient development of subsurface resources.

IGOR SECHIN
Chairman of Rosneft Board of Directors



The combination of state and private ownership is a solid basis for Rosneft's further business growth. 2007 clearly demonstrated that Rosneft's development strategy is effective and robust

SERGEY BOGDANCHIKOV
President of Rosneft

Message from the President

Dear Shareholder,

In 2007, Rosneft distinguished itself as the leading national oil company, posting the best operating and financial performance since its establishment. We continued to implement a coordinated strategy for sustainable business growth, with the primary focus shifting to major asset base expansion to strengthen our future prospects.

Last year, Rosneft acquired major upstream assets in various regions of Russia with total proved reserves of about 1.5 bln barrels of oil equivalent and an output of more than 300 thousand barrels of oil per day. The Company also acquired five new refineries, thus increasing its aggregate refining capacity to more than 1.1 mln barrels per day. In addition, Rosneft managed to extend its retail network from 684 to 1,695 filling stations.

Thanks to the expertise and cooperative effort of all Rosneft employees, we successfully integrated newly acquired assets into the Company's operating structure, which resulted in major synergies and positively affected our consolidated results. Rosneft currently enjoys a more balanced asset portfolio and greater flexibility in operating and strategic planning. We are now able to deliver even better performance as the Company is particularly well placed to build on a streamlined group structure.

Rosneft achieved impressive organic growth in 2007. Organic increase in our hydrocarbon production amounted to 6.6%, which is well above the average of our domestic and international peers. Organic reserve replacement ratio was 111%, while total reserve replacement ratio exceeded 300%. Furthermore, we significantly increased throughput at our Tuapse and Komsomolsk refineries.

The continued favorable price environment in 2007 became another major contributing factor to Rosneft's performance. Global oil prices grew 11% compared to 2006, reaching an unprecedented level of almost USD 100 per barrel by year-end 2007. Due to a time lag between Russian export duties and international crude oil prices, net export price (excluding export duty and mineral extraction tax) increased by more than 20%. Refining margins in Russia, being a function of export duties for crude oil and petroleum products, were also exceptionally high. Coupled with Rosneft's massive progress throughout our core operations, this led to a further strengthening of the Company's financial position.

In 2007, Rosneft's net income adjusted for extraordinary items reached USD 6,483 mln – almost a twofold growth compared to 2006. Return on average capital employed (ROACE) in the review period increased to 18.6% from 18.1% in the previous year, while the Company's adjusted EBITDA grew to USD 14,459 mln.

Constantly striving to optimize consolidated reporting and information disclosure, in 2007, we completed a comprehensive fast-close reporting project, RosA, that now covers more than 300 of the Company's business units. RosA allows preparation of unaudited consolidated management accounts under US GAAP and RAS on the 30th calendar day after the end of a reporting period, which gives Rosneft a strong competitive advantage over our national rivals. Thanks to well-planned and targeted implementation of the RosA project, which was launched in June 2006, we can now benefit from improved management decision-making, higher transparency and investor appeal, and compliance with global best practices in information disclosure. The new fast-close system takes Rosneft to a new level of international recognition, and significantly contributes to enhanced strategic planning.

Global economic downturn resulted in highly volatile prices of Rosneft shares in 2007. However, modest annual growth in share prices does not adequately reflect our strong operating and financial performance. I am confident that the Company has vast potential to further drive shareholder value, and we will continue our endeavors to sustain consistently high shareholder returns.

Upstream

In 2007, we continued to develop our upstream segment in accordance with the long-term business strategy. It was a truly remarkable year in terms of strengthening Rosneft's exploration and production portfolio. Rosneft became the first Russian oil company to hit a landmark crude production level of 100 mln tonnes a year (more than 2 mln barrels per day). Crude oil production increased by 27% year-on-year, with organic growth being 6.6%. The Company's proved hydrocarbon reserves under SPE classification now stand at 21.7 bln barrels of oil equivalent, up 8% over the previous year. As the leading publicly traded company in terms of proved liquid hydrocarbon reserves, Rosneft has an average hydrocarbon reserve life of 27 years.

In 2007, the Company continued to implement exploration projects in the most promising regions of Russia, such as East Siberia and the Far East. We were also actively engaged in foreign developments in Kazakhstan and Algeria. In 2007, the Company remained the national leader in terms of reserves added per well and replacement cost of reserves. Rosneft's active participation in numerous exploration projects ensures access to considerable prospective resources, which will further support the Company's long-term development. According to DeGolyer and MacNaughton, as at the end of 2007, the best estimate of total gross prospective resources of upstream projects with Rosneft's participation was 75.5 bln barrels of oil equivalent.

The Company's superb performance was also largely due to a major expansion of its production portfolio, ongoing introduction of cutting-edge field development technology, and new projects. The key factors of impressive organic growth in crude output were accelerated development of the Priobskoye field in West Siberia and successful implementation of the Sakhalin-1 project in the Russian Far East. Continuous application of enhanced recovery methods also enabled us to maintain consistent production levels at mature fields.

In 2007, we significantly broadened our operations in East Siberia. Enjoying high development potential, oilfields of this region (Vankor group of licensed blocks and Yurubcheno-Tokhomskoye) will soon become the primary resource pool for the Company, as well as the main source of our organic growth in production. Particularly gratifying was our progress with large-scale infrastructure development activities at Vankor. This massive project, with proved oil reserves of 1.46 bln barrels, is among the top 10 global oil and gas developments, and is in fact a foundation of a new and highly promising oil province.

In 2007, we continued to implement a comprehensive gas program, primarily aimed at increasing petroleum gas utilization to reduce environmental impacts of Rosneft's operation. Our major goal is to achieve a target gas utilization rate of 95% in line with international environmental standards. An important milestone for Rosneft was the signing of a joint implementation agreement with the World Bank to develop a gas flaring reduction program that envisages purchases of emission reduction units by the World Bank's Carbon Finance.

Downstream

Rosneft's downstream business also continued to expand throughout 2007. Thanks to the new acquisitions, our total refinery throughput reached 806 thousand barrels per day, whereas petroleum product output amounted to 38.3 mln tonnes – an increase of 69% compared to 2006. We also significantly diversified oil product mix and improved the average complexity index of our refineries. Rosneft is now able to refine more than half of produced crude, which will provide a significant contribution to the Company's steady business growth.

In downstream, apart from the key focus on integrating new assets acquired in 2007, Rosneft was actively implementing a large-scale upgrade program. In particular, Komsomolsk Refinery completed the upgrade of an atmospheric and vacuum distillation unit to an annual capacity of 100,000 barrels per day, and launched the construction of a delayed coking facility. Additionally, a comprehensive hydrocracking project set to run through 2012 will enable the plant to further improve light product yield, and to increase the output of high-quality petroleum products complying with the Euro-4 and Euro-5 standards. Tuapse

Refinery, which is favorably situated on the Black Sea coast, completed the design and engineering stage of a new atmospheric and vacuum distillation unit with a capacity of 240,000 barrels per day, which will be the first phase of the refinery's major expansion project.

In 2007, Rosneft took control and successfully led comprehensive modernization of newly acquired refineries, which was primarily aimed at upgrading motor fuel production to Euro-3 and Euro-4 standards. We also initiated a set of strategic development projects for these refineries. Our key objective is to increase the refining capacity to maintain, and preferably enhance, the current balance between the upstream and downstream segments. The Company also strives to raise the share of higher value-added products complying with the latest environmental standards.

Acquisition of new petroleum product suppliers in 2007 enabled us to substantially increase the volume and profitability of wholesale and retail operations. Rosneft became the second largest oil company in Russia in terms of filling station network, which now covers 36 regions of the country. In 2007, we sold 18.3 mln tonnes of petroleum products in the domestic market, including 2.3 mln tonnes sold through proprietary filling stations.

The Company will continue extending the retail network in areas close to its refineries and tank farms, as well as in the rapidly developing markets of Moscow and St. Petersburg. By the end of 2008, Rosneft plans to complete large-scale rebranding of the filling stations acquired in 2007. Broader access to the Russian retail market will enable us to mitigate the impacts of high price volatility in the international crude oil market, and to enhance Rosneft's competitive position through better brand recognition.

In 2007, we launched a major program to develop bunkering operations, which is a new business for the Company. Rosneft's conveniently located refineries and modern transshipment infrastructure ensure environmentally safe year-round shipments and efficient sales of bunker fuel at the largest ports of the Far East, the Black Sea, and the Northwest region, as well as on major domestic sea routes.

The combination of state and private ownership is a solid basis for Rosneft's further business growth. 2007 clearly demonstrated that Rosneft's development strategy is effective and robust. Furthermore, we can now benefit from a diverse asset base and a wider range of future opportunities, supported by the experience and dedication of all of our staff. In the years to come, we will continue to pursue our key strategic priorities to ensure sustained growth in Rosneft's operating and financial results for the benefit of our numerous shareholders.

SERGEY BOGDANCHIKOV
President of Rosneft

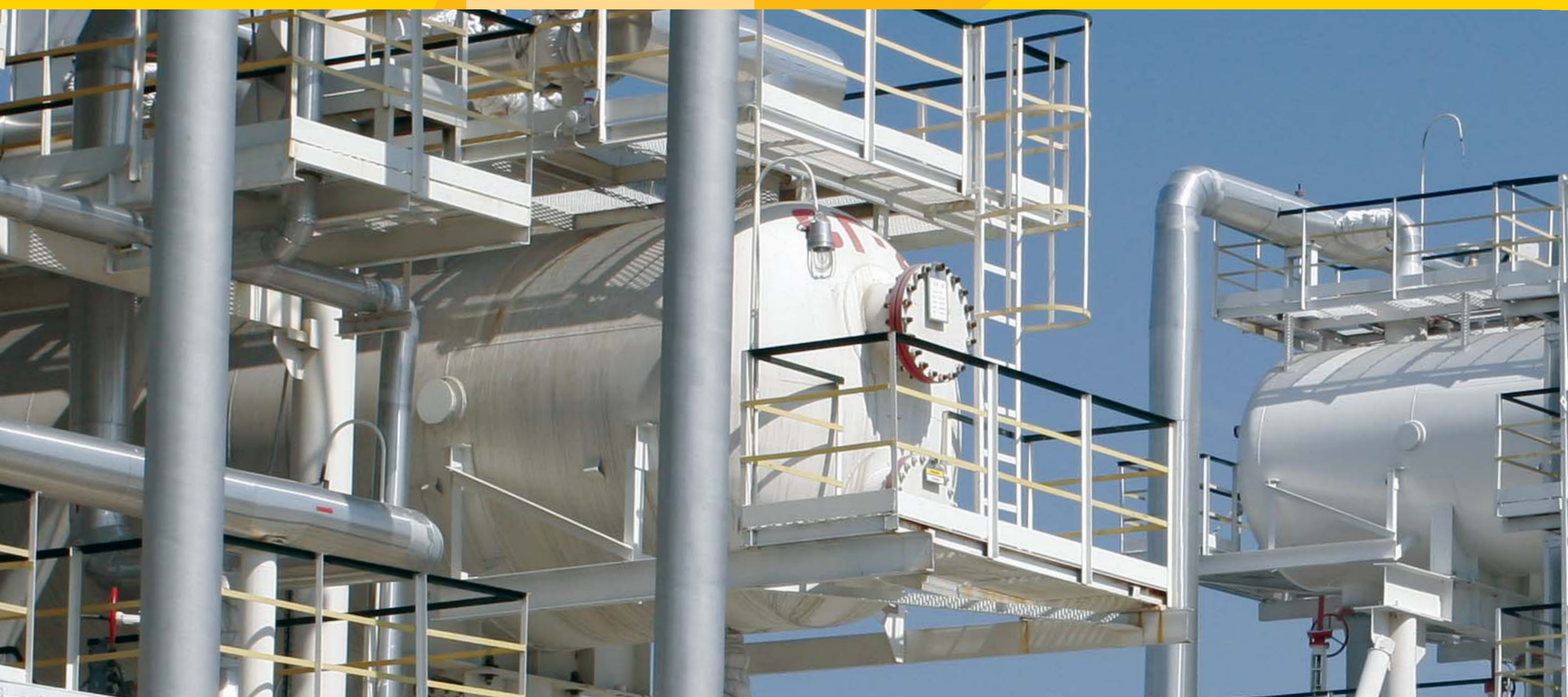
Key Events in 2007

- Rosneft acquired major upstream and downstream assets through Yukos bankruptcy auctions. The new assets were successfully integrated into the Company's operating structure, and allowed Rosneft to become the national petroleum leader
- Rosneft became the first Russian oil company to hit a record crude output of 100 mln tonnes a year (over 730 mln barrels)
- Rosneft was included in the Russian Government's List of Strategic Enterprises and Organizations
- Fitch Ratings raised the Company's long-term credit rating to BBB-, while Moody's and Standard & Poor's upgraded Rosneft from Baa2 to Baa1 and from BB to BB+, respectively
- Rosneft held its first annual general shareholders' meeting as a publicly traded company
- Rosneft completed its important project aimed at optimizing consolidated financial reporting (unaudited financial statements under US GAAP and RAS are submitted on the 30th calendar day after the end of a reporting period)
- Sakhalin-1 reached a peak crude output of 250,000 barrels per day
- Rosneft and SIBUR launched a joint venture to commence associated petroleum gas utilization at the Yuzhno-Balyk Gas Processing Plant owned by SIBUR
- Rosneft and the World Bank agreed to develop a gas flaring reduction program, under which emission reduction units could be bought by the World Bank. The program will be implemented in the framework of a Kyoto Protocol project currently underway at the Komsomolskoye field
- In the framework of the Gas Utilization Program, a new compressor station was commissioned at the Priobskoye field
- Rosneft commenced international bunkering operations
- Rosneft and Sovkomflot agreed to establish a joint venture that will service the Company's shelf projects
- Rosneft and Royal Dutch Shell signed a strategic partnership agreement
- Rosneft announced a rebranding initiative for its filling stations
- The Museum of Rosneft History was founded
- The 65th anniversary of Komsomolsk Refinery and the 40th anniversary of Udmurtneft were celebrated

Rosneft announced a rebranding initiative for its filling stations


Rosneft became the first
Russian oil company to
hit a record crude output
of 100 mln tonnes a year
(over 730 mln barrels)

- Leadership in terms of liquid hydrocarbon reserves
- Industry's best ratio of proved reserve replacement
- Fastest growth in oil production among national petroleum companies
- Lowest operating and administrative expenses per unit of output
- Highest market capitalization among Russian oil companies



Company Profile

Company History

Rosneft's history is virtually inseparable from the history of the Russian petroleum industry. The Company's core enterprises, including recently acquired assets, date back to Soviet times, when large-scale exploration and development of new oil and gas fields was underway.

In the 1990s, many of Russia's fuel and energy companies, along with other state-regulated industry enterprises, were consolidated into vertically integrated companies, based on the model of the world's largest corporations. These newly established companies were subsequently fully or partially sold to private investors. Oil and gas assets including several upstream, downstream, and retail enterprises still owned by the state were managed by the state enterprise Rosneft.

In 1995, a Russian Government decree established the Rosneft of today (Open Joint-Stock Company Rosneft Oil Company), which took control over the assets previously managed by the state enterprise Rosneft.

In 1998, Russia's economic crisis presented significant financial and operational challenges for Rosneft, including an overall production decline due to a severely depleted resource base, low capacity utilization at refineries, and decreasing retail sales in regional markets. Antiquated equipment and outdated technology also hindered Rosneft's development.

The same year, a new executive team was appointed at Rosneft to handle the situation, regain competitive market positions and lay the foundation for the Company's sustainable development. Since that time, Rosneft has achieved a number of important accomplishments, including:

2000 Rosneft posts an increase in production for the first time since the economic crisis.

2001 Despite declining crude oil and petroleum product prices, Rosneft considerably enhances its operating efficiency and achieves an annual growth in crude oil output of more than 10%.

The Company launches a long-term business strategy aimed at expanding exploration and production operations, increasing refining capacity, and expanding to new markets.

Rosneft becomes an official representative of the Russian Government in projects being implemented under production sharing agreements.

Commercial reserves are discovered under the Sakhalin-1 project.

Rosneft is the first Russian company to place Eurobonds since the 1998 economic crisis.

The Russian petroleum industry dates back to the mid-19th century when the first developments were commenced in oil and gas provinces of Kuban. In 1865, first wells were drilled on the left bank of the Kudako River. By late 19th century, annual crude oil output in Russia exceeded 35 mln barrels.

In 1920s, full-scale exploration was started in new hydrocarbon regions between the Volga and the Urals. As a result, major oil fields were discovered in the Tatar and Bashkir republics, and in the Kuibyshev region.

The 1930s saw a significant progress in hydrocarbon development technology. In particular, a gas lift recovery technique based on associated gas was invented. In addition, a water injection method of reservoir pressure maintenance was introduced.

Rosneft wins a tender for hydrocarbon exploration, development, and production at Block 245-South in Algeria.

2002 Rosneft obtains an exploration license to the Kaigansko-Vasyukansky block (Sakhalin-5 project).

2003 Rosneft secures a license to the Veninsky block (Sakhalin-3 project).

Rosneft acquires Severnaya Neft Oil Company, strengthening its competitive positions in Timan-Pechora.

Rosneft and LUKOIL restructure their jointly owned assets through a mutually beneficial exchange and, as a result, the Company obtains a 50% stake in Polar Lights, a joint venture with ConocoPhillips.

Rosneft expands its international operations by being appointed the representative of the Russian Federation in the Kurmangazy project on Kazakhstan's Caspian shelf and by starting oil production at the Aday block in Western Kazakhstan.

The Company acquires Anglo-Siberian Oil Company, which holds licenses to the Vankor oil and gas block in the Krasnoyarsk region (as of year-end 2007, the block had proved oil reserves of 1.46 bln barrels and a production potential of more than 430 thousand barrels of oil per day).

2004 Rosneft acquires a controlling stake in a major national oil producer, CJSC Yuganskneftegaz, in the largest transaction in Russian corporate history.

The Company starts 2D seismic surveying at the West-Schmidt licensed block (Sakhalin-4 project).

2005 With the completion of Yuganskneftegaz integration into the Company's operating structure, Rosneft ranks third among Russian oil companies in crude output, second in gas output, and first in terms of refining capacity utilization.

2006 Rosneft floats USD 10.7 bln worth of stock in an Initial Public Offering, which attracts a number of oil and gas majors, such as Petronas, British Petroleum, and China National Petroleum Corporation, as well as more than 150,000 individual investors. It is the fifth largest IPO in the global financial market and the largest ever for a Russian company.

Rosneft acquires a major stake in OJSC Udmurtneft, a leading crude oil producer in Central Russia.

Rosneft becomes the second largest oil and gas condensate producer in Russia, with a total crude output of more than 580 mln barrels.

2007 Rosneft significantly increases reserves, production volumes, and refining capacity, as well as considerably extends its retail network through the acquisition of stakes in several Russian and foreign companies at auctions held in connection with the Yukos bankruptcy.

Rosneft becomes the leading national petroleum company, accounting for more than 20% of Russia's crude oil output.

In the mid-1940s, the Soviet government's high priority was to foster hydrocarbon development, particularly at new fields of the Middle Volga and Urals regions. Later that decade, new oil deposits were discovered in the Saratov, Volgograd, Perm and Orenburg regions. By 1949, the country's annual crude oil output reached a pre-war level of 240 mln barrels.

In the 1960s, exploration and development activities were commenced in West Siberia, where the world's largest oil field Samotlorskoye was discovered. Broadening operations in the Udmurt republic, Perm region, and Orenburg region also significantly contributed to a major expansion of the county's hydrocarbon reserve base. In 1965–1975, the average annual increase in crude production was approximately 180 mln barrels.

In 1988, a record high crude oil output of over 4.5 bln barrels was achieved.

General Information about Rosneft

Full name:
Open joint-stock company Rosneft Oil Company.

Registered address:
26/1 Sofiyskaya Embankment,
Moscow 115035, Russia.

Date of State Registration and Certificate Number:

Date of state registration of a legal entity:
December 7, 1995.

Certificate number: 024537.

Date of entry into the Unified State Register of Legal Entities regarding a legal entity registered prior to July 1, 2002: August 12, 2002.

Certificate of Entry into the Unified State Register of Legal Entities Regarding a Legal Entity Registered Prior to July 1, 2002:

Series 77 No. 004856711.

Principal State Registration Number:
1027700043502.

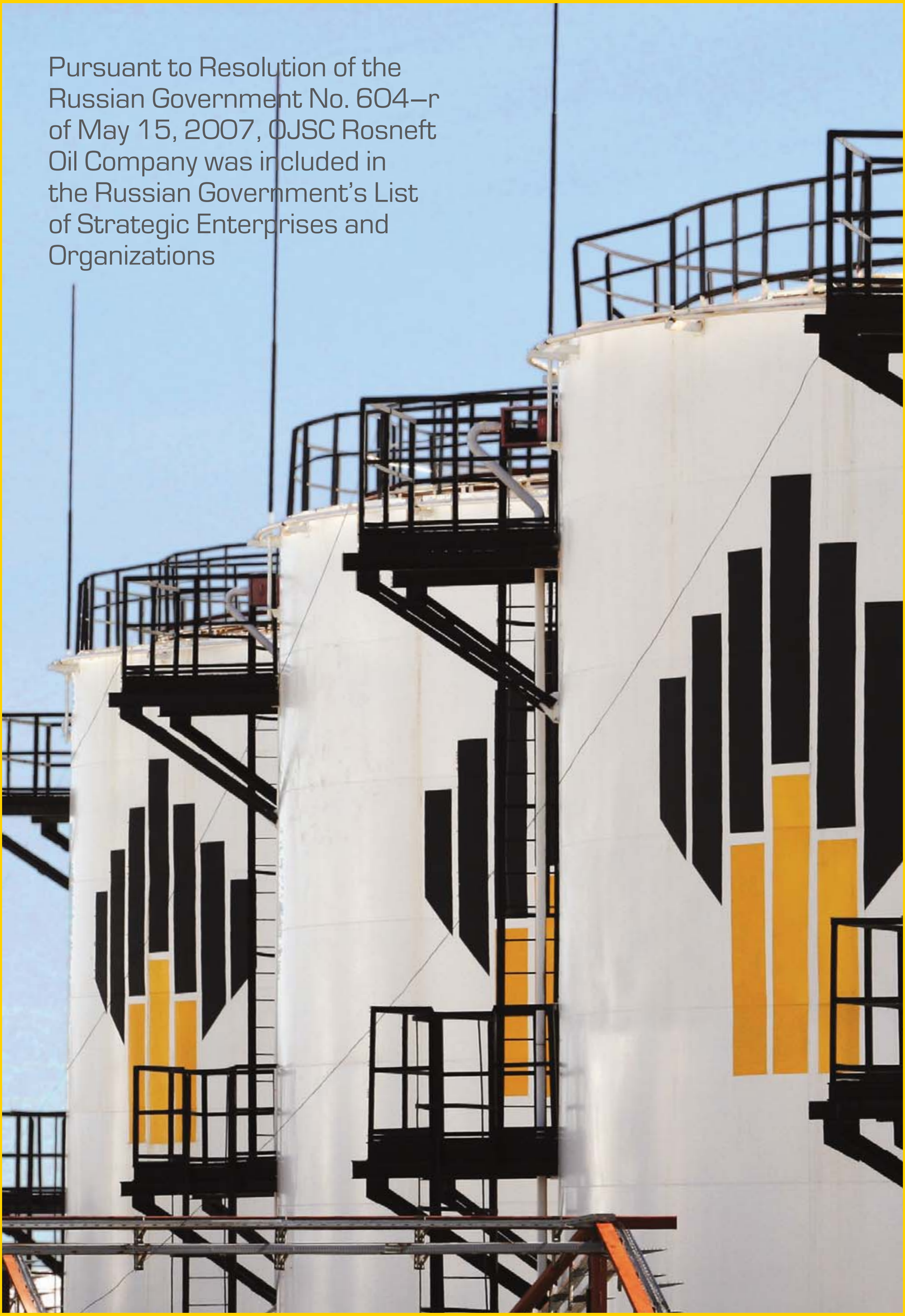
Activities

Rosneft's core activities are: prospecting and exploration of hydrocarbons; production, transportation, and refining of hydrocarbons; production and transportation of petroleum products and petrochemicals; storage and sale (both in the domestic and international markets) of hydrocarbons, petroleum products and petrochemicals; sale of consumer goods and services.

The Company is also engaged in various non-core activities.

Pursuant to Resolution of the Russian Government No. 604-r of May 15, 2007, OJSC Rosneft Oil Company was included in the Russian Government's List of Strategic Enterprises and Organizations.

Rosneft headquarters:
26/1 Sofiyskaya Embankment,
Moscow 115035, Russia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Rosneft Structure

- **Rosneft**
  - **Exploration, Production, and Development**
    - **Exploration**
      - Vankor group of licensed blocks
      - Sakhalin-3
      - Sakhalin-4
      - Sakhalin-5
      - West-Kamchatka block
      - Temryuksko-Akhtarsky block
      - Kazakhstan
      - Tuapse Trough
      - Licensed blocks in Evenkia, Krasnodar region, and Irkutsk region
      - Algeria
      - LLC Val Shatskogo
      - Caspian Oil Company
    - **Service**
      - LLC RN-Energo
      - LLC RN-Service
      - LLC RN-Burenie
      - LLC RN-Inform
      - LLC RN-Uchet
    - **Development and Production**
      - LLC RN-Yuganskneftegaz
      - LLC RN-Purneftegaz
      - LLC RN-Severnaya Neft
      - OJSC Samaraneftegaz
      - OJSC Tomskneft VNK
      - OJSC Udmurtneft
      - LLC RN-Sakhalinmorneftegaz
      - LLC RN-Krasnodarneftegaz
      - OJSC Grozneftegaz
      - CJSC Sakhalinskie Proekty (Sakhalin-1)
      - LLC RN-Stavropolneftegaz
      - LLC Polar Lights Company
      - CJSC Vankorneft
      - OJSC Rosneft-Dagneft
      - OJSC Dagneftegaz
      - OJSC Verkhnechonskneftegaz
      - OJSC East Siberian Oil and Gas Company
  - **Refining, Transshipment, and Marketing**
    - **Refining**
      - OJSC Angarsk Petrochemical Company
      - OJSC Achinsk Refinery
      - LLC RN-Komsomolsk Refinery
      - OJSC Novokuibyshevsk Refinery
      - OJSC Kuibyshev Refinery
      - OJSC Syzran Refinery
      - LLC RN-Tuapse Refinery
    - OJSC Rosneft-MZ Nefteprodukt
    - OJSC Rosneft-Stavropolye
    - OJSC Rosneft-Karachaevo-Cherkessknefteprodukt
    - OJSC Rosneft-Yamalnefteprodukt
    - LLC RN-Trade
    - OJSC Hermes-Moscow
    - OJSC Belgorodnefteprodukt
    - OJSC Buryatnefteprodukt
    - CJSC Irkutsknefteprodukt
    - CJSC Oryolnefteprodukt
    - CJSC Penzanefteprodukt
    - OJSC Stavropolnefteprodukt
    - OJSC Tomsknefteprodukt VNK
    - CJSC NBA-Service
    - CJSC Energoservis
    - LLC Yu-Kuban
    - **Transshipment and Marketing**
      - LLC RN-Nakhodkanefteprodukt
      - LLC RN-Vostoknefteprodukt
      - LLC RN-Arkhangelsknefteprodukt
      - LLC RN-Tuapsenefteprodukt
      - OJSC Rosneft-Altainefteprodukt
      - OJSC Rosneft-Kubannefteprodukt
      - OJSC Rosneft-Kurgannefteprodukt
      - OJSC Rosneft-Smolensknefteprodukt
      - OJSC Rosneft-Kabardino-Balkarian Fuel Company
      - OJSC Rosneft-ARTAG
      - OJSC Rosneft-Murmansknefteprodukt
      - OJSC Kedr-M
      - CJSC PARKoil
      - CJSC Bryansknefteprodukt
      - OJSC Voronezhnefteprodukt
      - CJSC Lipetsknefteprodukt
      - CJSC Ulyanovsknefteprodukt
      - OJSC Samaranefteprodukt
      - CJSC Tambovnefteprodukt
      - CJSC Khakasnefteprodukt VNK
      - OJSC Antares
      - CJSC Yu-Tver

Rosneft is among the world's largest vertically-integrated oil and gas companies. As of December 31, 2007, the Rosneft group consisted of 516 subsidiaries and affiliates, including 17 production and seven major refining assets, four marine terminals, and a proprietary network of 1,695 filling stations throughout Russia.

Rosneft is currently implementing a major program aimed at optimizing its corporate structure by disposing of certain non-core and low-efficiency assets.

Rosneft Today

Rosneft is the leading Russian petroleum company. Its key development priorities include:

- increasing oil and gas output through active development of hydrocarbon reserves and improving the efficiency of field operations
- expanding the reserve base and improving its structure through increased exploration in new oil and gas provinces
- continuous monitoring and implementation of new technology; strengthening the R&D portfolio
- increasing refinery throughput and complexity by comprehensive upgrades; raising the output of high-quality petroleum products to meet the latest environmental standards
- optimizing supply directions and channels through ongoing expansion and modernization of transport infrastructure; challenging new markets and diversifying the customer base
- further developing the marketing assets; expanding the retail network to attain a higher value added
- enhancing corporate governance and transparency

Rosneft is the top Russian oil company and has been included in the Russian Government's List of Strategic Enterprises and Organizations. In 2007, the Company became the largest national oil producer, with crude output exceeding 2 mln barrels per day, and had the biggest proved oil and gas condensate reserves among the world's publicly traded oil and gas companies. Rosneft also enjoyed superb reserve-to-production and replacement ratios, which were the best in the global petroleum industry. The Company's sustained development is largely underpinned by the ongoing introduction of cutting-edge field development technology and advanced recovery methods. In 2006–2007, Rosneft's organic growth in oil and gas condensate production was the highest in national petroleum industry.

The Company's long-term development is further supported by an extensive portfolio of exploration projects. Rosneft is increasingly focused on the most promising regions of East Siberia, the Okhotsk Sea shelf, as well as shelves of the Russian southern seas. In the near future, the Company plans to accelerate exploration activities in these areas to ensure they gradually become full-fledged oil and gas provinces.

Rosneft is also one of the leading independent national gas producers enjoying a unique reserve portfolio, which ensures steady growth in gas output. As of year-end 2007, the Company had 711 bln cu. m of proved gas reserves (SPE classification), 470 bln cu. m of probable gas reserves, and 638 bln cu. m of possible gas reserves. Rosneft continues to implement a comprehensive gas program aimed at enhancing the utilization of associated petroleum gas, one of the Company's key strategic priorities. The Program envisages the construction of gas collection systems, booster compressor stations, underground storage facilities, as well as a set of measures to improve gas treatment. The Company's target gas utilization rate is 95%.

Furthermore, export terminals in Tuapse (Krasnodar region), De-Kastri (Khabarovsk region), Nakhodka (Primorsky region), and Arkhangelsk allow Rosneft to significantly reduce risks related to crude and petroleum product suppliers, which is crucial to supporting successful business operations.

Rosneft previously had a limited degree of vertical integration, largely due to unbalanced refining capacities. Prior to 2007, the Company operated only two refineries with a combined capacity of about 80 mln barrels a year. However, the acquisition of five new refineries in 2007 allowed Rosneft to bring its aggregate capacity to 415 mln barrels a year, currently a record high among Russian oil companies. Moreover, favorable locations of the new assets will enable the Company to substantially improve the efficiency of petroleum product supplies.

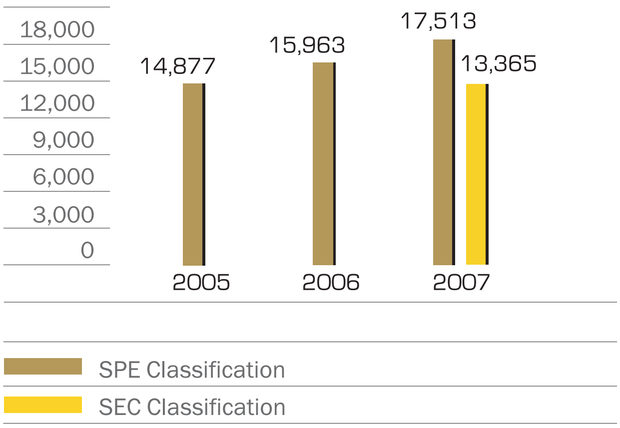
After acquiring new filling stations in 2007, Rosneft became the second largest oil company in Russia in terms of retail network. The Company now owns 1,695 filling stations in 36 regions of Russia. Rosneft's major goal is to further increase the retail market share in areas close to its refineries as well as in the fast-growing markets of Moscow and St. Petersburg.

Rosneft has been delivering consistently high performance since its establishment in 1993. In 2007, Rosneft demonstrated superb operating and financial results, and managed to maintain the lowest lifting costs and unit administrative expenses among all of its national peers. The Company's performance was appreciated by the market – in 2007, Rosneft had the highest capitalization among Russian oil companies.

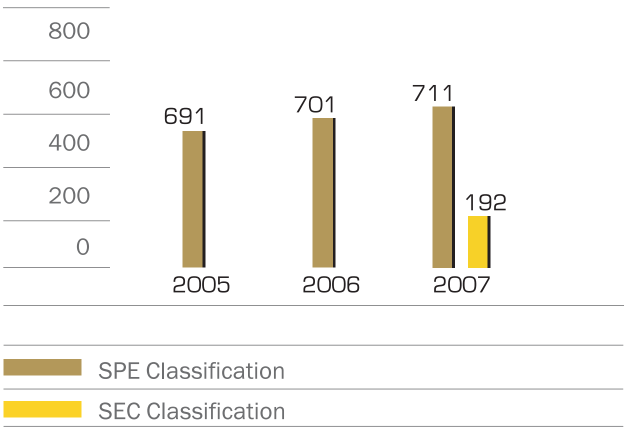

Rosneft has the largest proved
oil and gas condensate reserves
among the world's publicly
traded petroleum companies

Key Production and Financial Indicators

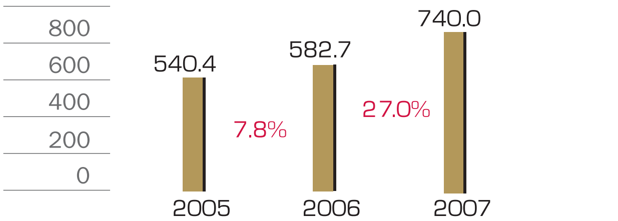
Proved oil reserves
(mln barrels)



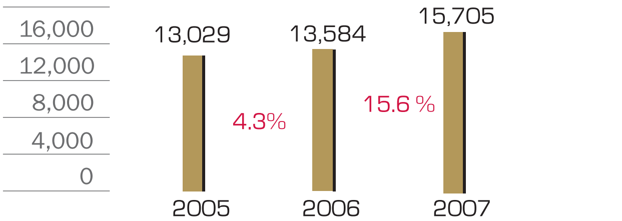
Proved gas reserves
(bln cu. m)



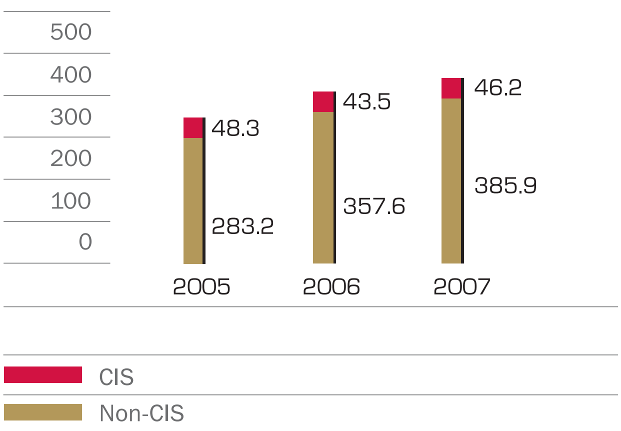
Crude oil production
(mln barrels)



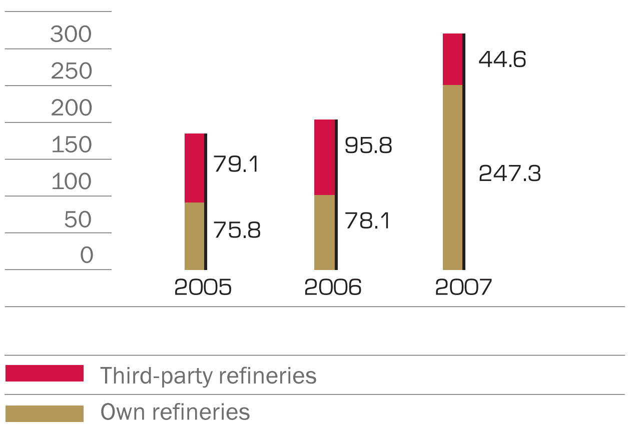
Gas production
(mln cu. m)



Crude oil export sales
(mln barrels)



Refining of own and purchased crude oil
(mln barrels*)



* Excluding mini-refineries

Operating Highlights	**2006**	**2007**	**Change, %**
Proved oil reserves (mln barrels)	15,963	17,513	9.7%
Proved gas reserves (bln cu. m)	701	711	1.4%
Proved hydrocarbon reserves (mln boe)	20,089	21,699	8.0%
Hydrocarbon reserve-to-production ratio (years)	30.3	27.1	(10.6)%
Oil production (mln barrels)	582.7	740.0	27.0%
Gas production (mln cu. m)	13,584	15,705	15.6%
Hydrocarbon production (th. boe per day)	1,815	2,281	25.6%
Refinery throughput[1] (mln barrels)	175.6	294.1	67.5%
Petroleum product output[1] (mln t)	22.64	38.28	69.1%
Crude oil export sales (mln barrels)	401.1	432.1	7.7%
Petroleum product export sales (mln t)	13.34	19.17	43.7%
Number of own and leased filling stations	684	1,695	147.8%
Retail sales of petroleum products (mln t)	1.10	2.31	110.0%

Financial Highlights	**2006**	**2007**	**Change, %**
Sales (USD mln)	33,099	49,216	48.7%
EBITDA[2] (USD mln)	7,263	14,459	99.1%
EBITDA margin	21.9%	29.4%	
EBITDA per boe of production (USD)	11.07	17.96	62.2%
Net income (USD mln)	3,533	12,862	264.1%
Adjusted net income[3] (USD mln)	3,520	6,483	84.2%
Adjusted net income margin before minority interest	10.9%	13.2%	
Return on average capital employed (ROACE)	18.1%	18.6%	
Return on average equity (ROAE)	23.0%	25.6%	
Net debt (USD mln)	13,324	26,275	97.2%
Net debt-to-capital employed ratio	0.38	0.48	
Net debt-to-EBITDA ratio	1.83	1.82	
Current ratio	0.87	0.68	
Capital expenditures (USD mln)	3,462	6,780	95.8%
Upstream capital expenditures per boe of production (USD)	4.02	5.73	42.5%
Hydrocarbon lifting costs per boe of production (USD)	2.49	3.08	23.7%
Share price as of year end (USD)	9.15	9.57	4.6%

[1] Refining of own and purchased crude oil at Rosneft and third-party refineries (including mini-refineries) and corresponding output of petroleum products.

[2] EBITDA, for any relevant period, is operating income for such period plus interest on taxes other than income tax accrued in relation to Yuganskneftegaz tax liabilities for 1999–2004, accretion expense (related to the unwinding of asset retirement obligations), and depreciation, depletion and amortization for such period.

[3] Net income adjusted for extraordinary items such as net proceeds from Yukos bankruptcy and other.

Rosneft Development and Strategy Outlook

Rosneft's strategic objective is to become the world's leading oil and gas company. The Company is aiming to achieve the best production and financial indicators, while also maintaining the highest environmental and industrial security standards, improved social responsibility, and efficient corporate governance. Rosneft's management expects to accomplish these goals by expanding production, refining, and marketing operations both in Russia and abroad. Ongoing development and application of new technology, enhanced management policies, and tighter financial discipline are also crucial to this strategy. All of these measures will ensure continued growth in Rosneft's production and financial performance for the benefit of its numerous shareholders.

The Company's development strategy has the following key priorities:

Further Growth in Crude Oil and Gas Condensate Production

Provided the favorable economic conditions continue, Rosneft believes it can increase annual crude oil output to 950 mln barrels (2.6 mln barrels per day) by 2010 and up to 1,170 mln barrels (3.2 mln barrels per day) by 2015.

In the short term, growth will be driven primarily by further development of the Company's fields in West Siberia and Timan-Pechora.

East Siberia is crucial to the Company's medium-term development. Currently, Rosneft is completing production facilities at the massive Vankor field in the Krasnoyarsk region. The plan is to export Vankor crude via the East Siberia – Pacific Ocean pipeline, which is now under construction. Meanwhile, crude oil from the field will be delivered westward through Transneft's trunk pipeline system. Rosneft in cooperation with TNK-BP will also participate in the development of the Verkhnechonsk field in the north of the Irkutsk region.

In addition, Rosneft holds licenses to several blocks adjacent to the Vankor and Verkhnechonsk fields, which ensure the Company's sustained development.

The Okhotsk Sea shelf will also greatly contribute to long-term expansion of the Company's operations. Although Rosneft's Sakhalin-3, Sakhalin-4, Sakhalin-5, and Kamchatka shelf projects are currently at an early exploration stage, they represent some of the most promising sources for stable growth in hydrocarbon production, thus enabling the Company to become a major player in the Far East energy market. All these projects are being implemented under joint financing agreements to ensure lower operational risks and capital expenditures.

Increasing Crude Throughput and Refineries Complexity

The acquisition of new assets in 2007 enabled Rosneft to substantially increase its refining capacity and the quality of petroleum products. In the coming years, the Company will continue to improve the efficiency of refining operations.

Rosneft is confident that comprehensive upgrades of its refining facilities will allow production of petroleum products in compliance with the most rigorous international standards. Better-quality petroleum products as well as increased complexity and capacity of refineries will enhance the Company's profitability and improve the balance between production and refining operations.

In addition, Rosneft plans to expand and upgrade its network of filling stations and related facilities to increase its share in the dynamic retail market of petroleum products.

Increasing the Company's Value by Improving Operating Efficiency

Rosneft consistently aims to improve its key performance indicators, such as upstream operating costs per barrel of production, upstream capital expenditures per barrel of production, return on average capital employed, and return on equity.

The Company has therefore introduced an advanced Total Production Management System™, which is based on geological and simulation models for major fields. TPMSYS™ enables Rosneft to identify wells with the highest production potential, and efficiently allocate financial resources for drilling, hydraulic fracturing, and artificial lift operations. Rosneft's active cooperation with the world's leading service companies, such as Schlumberger, Halliburton, and Baker Hughes, facilitates the introduction of top-of-the-line drilling and workover technologies.

The Company's capital-intensive projects are assessed on the basis of such key parameters as the net present value, internal rate of return, payback period, and profitability index.

Comprehensive measures to improve operating efficiency, coupled with favorable geological conditions and crude oil and gas properties at its major fields, help the Company to hold operating costs and capital expenditures per barrel of crude output below the industry average.

Commitment to the Highest Standards of Corporate Governance

Rosneft is committed to the highest standards of corporate governance. The Company's code of corporate governance includes provisions for:

- at least three independent directors on the Board of Directors
- committees of the Board of Directors, of which at least two (the Audit Committee and the HR and Remuneration Committee) are headed by independent directors
- prohibiting the use of insider information
- introducing internal control policies and procedures

Rosneft also strives to constantly improve its information disclosure system. At the end of each quarter, the Company issues Management Discussion and Analysis (MD&A), which contain comprehensive data on its operating and financing activities. Furthermore, Rosneft is among the few global petroleum companies that publish reserve audit reports under international standards.

In 2008, a new development strategy is planned to be submitted for approval to the Board of Directors.

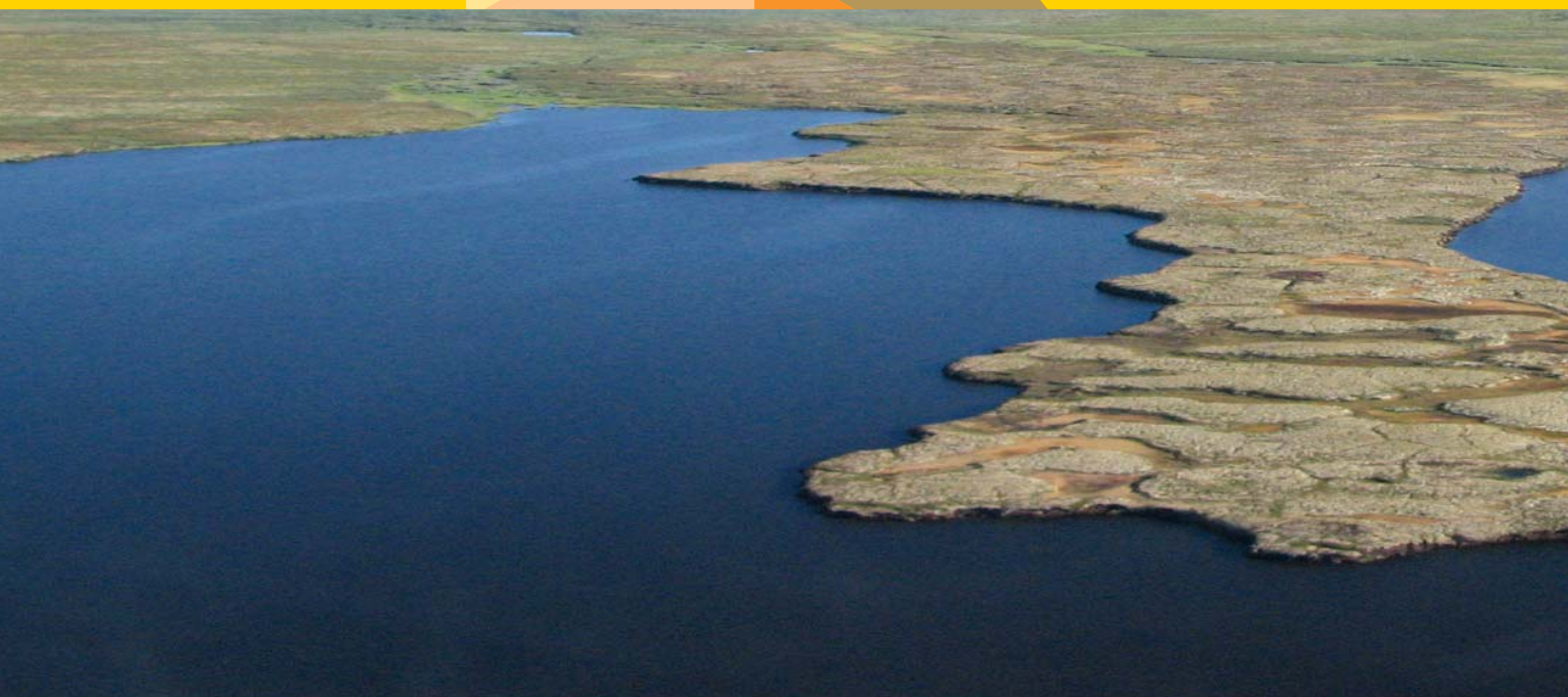
— Rapidly growing portfolio of exploration assets

— Leadership in terms of reserves added per well and replacement cost of reserves

— Record-high crude output in the Russian petroleum industry

— A 69% rise in petroleum product output

— Diverse export destinations and increased sales of petroleum products via proprietary filling stations



Performance Review

Major Acquisitions

Purchase of Yukos Assets

In April–August 2007, Rosneft acquired a number of upstream, downstream, and other assets through auctions held in connection with Yukos bankruptcy. In June–July 2007, the Company also purchased another several assets from winners of other Yukos auctions. The acquisitions were executed by Rosneft or by its wholly owned subsidiaries RN-Razvitie and Neft-Aktiv. The main assets acquired include upstream companies Samaraneftegaz and Tomskneft and five refineries (Kuibyshev, Novokuibyshevsk, Syzran, Angarsk, and Achinsk) located in different parts of Russia. The acquisitions allowed Rosneft to boost its reserves and production volumes, as well as to achieve a more balanced vertically-integrated structure due to the increased refining capacity.

As of year-end 2007, proved hydrocarbon reserves of the acquired upstream assets[1] amounted to 1.46 bln boe (SPE). Their production of crude oil in Q4 2007 was 309 thousand barrels per day, or 14.5% of Rosneft's total[2]. Due to the acquisition of new refineries, Rosneft's total capacity reached more than 1.1 mln barrels per day, which is enough to handle more than 50% of the Company's crude oil output. Among other Yukos assets, the Company acquired 1,078 filling stations, thus extending its retail network to 1,695. By the end of 2007, Rosneft became the national leader in crude oil production and refining capacity, and ranked second in Russia by the number of filling stations.

Main assets acquired at auctions held in connection with Yukos bankruptcy

	Voting shares	Effective date of ownership
Exploration and production		
Tomskneft	100.00%	May 8, 2007
Samaraneftegaz	100.00%	May 15, 2007
OJSC East Siberian Oil and Gas Company	70.78%	May 18, 2007
Refining, marketing, and distribution		
Achinsk refinery	100.00%	May 8, 2007
Angarsk refinery	100.00%	May 8, 2007
Novokuibyshevsk refinery	100.00%	May 15, 2007
Kuibyshev refinery	100.00%	May 15, 2007
Syzran refinery	100.00%	May 15, 2007
Strezhevoi mini-refinery	100.00%	May 10, 2007
Marketing, distribution, and services	51.00%–100.00%	May–July 2007

Rosneft paid approximately RUB 687.7 bln (USD 26.6 bln) in aggregate for the Yukos assets, shares in various companies, and promissory notes of Yuganskneftegaz acquired at and following the auctions (including USD 7.65 bln for 9.44% shares in the Company and promissory notes of Yuganskneftegaz).

To finance the transactions, Rosneft and its wholly owned subsidiary RN-Razvitie entered into loan agreements with a syndicate of international banks. The agreements provide for USD 22.0 bln of borrowings, with the longest tranche not exceeding 18 months, and bear interest at LIBOR + 0.25–0.50% per year, depending on the final repayment date. A total of USD 22.0 bln was drawn down through May 2007.

In June and October 2007, Rosneft received nearly USD 11.5 bln (including proceeds received by the

[1] Includes 50% of Tomskneft.

[2] To account for the net effect of acquisitions (considering the disposal of a 50% stake in Tomskneft on December 27, which was scheduled immediately upon acquisition of this company), production of the newly acquired assets in Q4 2007 includes only 50% of Tomskneft's output in the quarter. Rosneft's total production also includes the same share of Tomskneft's output.

subsidiaries recently acquired from Yukos) as a Yukos creditor, of which USD 9.2 bln was used to partly repay the above USD 22.0 bln facility.

In late June 2007, Rosneft agreed to sell 50% of Tomskneft (an upstream company acquired through an auction in May 2007 among other Yukos assets) and received an advance payment of USD 3.4 bln. Those funds were used by Rosneft to facilitate financing the acquisition of other Yukos assets. On December 27, 2007, Rosneft sold a 50% stake in Tomskneft and certain other related assets to Gazpromneftfinance, a subsidiary of Gazprom Neft. Prior to the transaction, the shares in LLC Property-Service-Strezhevoi, OJSC NPF Geofit, OJSC Tomskneftegeofizika, OJSC Tomsk Research and Development University of Gas and Oil of Eastern Oil Company, LLC Outsourcing, LLC MNU, LLC Strezhevoi NPZ, LLC Entertainment and Sport Center, and LLC EPU-Service were sold to Tomskneft. The results of Tomskneft for 12 months ended December 31, 2007 were fully consolidated into Rosneft's income statement from the acquisition date until December 27, 2007. Rosneft accounts for Tomskneft using the equity method going forward from the date of sale.

In the course of Yukos bankruptcy auctions, Rosneft also acquired a number of non-core assets, including shell companies that had no assets or assets in regions of no strategic interest to Rosneft. The Company plans to sell or liquidate these non-core assets in the near future.

Treasury Stock

On March 27, 2007, LLC RN-Razvitie, a wholly owned subsidiary of the Company, won a tender for the purchase of 9.44% of the Company's shares as well as Yuganskneftegaz promissory notes with a face value of RUB 3,558 mln (USD 138 mln at the CBR exchange rate as of the payment date) from Yukos for a total of RUB 197.84 bln (USD 7.65 bln at the CBR exchange rate as of the payment date). For purposes of Rosneft's consolidated reporting, the total consideration was allocated to the assets acquired pro rata to their respective fair values and amounted to RUB 194.05 bln for the Company's shares, or RUB 194.05 per share (USD 7.52 bln, or USD 7.52 per share, at the CBR exchange rate as of the transaction date). Title to the shares and promissory notes was transferred to RN-Razvitie on April 17, 2007.

Yuganskneftegaz Service Companies

On April 18, 2007, Neft-Aktiv won an auction of certain service companies of Yuganskneftegaz, previously owned by Yukos. Neft-Aktiv purchased these assets for a total of RUB 1.03 bln (USD 0.04 bln at the CBR exchange rate as of the payment date).

Upstream and Downstream Assets in West and East Siberia

On May 3, 2007, Neft-Aktiv won an auction of Yukos shares in various exploration and production, refining and marketing, as well as power generation and distribution companies in West and East Siberia (the main assets are Tomskneft, East Siberian Oil and Gas Company, Angarsk and Achinsk refineries, and Angarsk Polymer Plant). Neft-Aktiv purchased those assets for a total of RUB 175.70 bln (USD 6.82 bln at the CBR exchange rate as of the payment date).

Samara Upstream and Downstream Assets

On May 10, 2007, Neft-Aktiv won an auction of certain exploration and production, refining and marketing, and gas processing and transportation assets of Yukos in the Samara region (the main assets are Samaraneftegaz and three refineries, Kuibyshev, Novokuibyshevsk, and Syzran). Neft-Aktiv purchased those assets for a total of RUB 165.53 bln (USD 6.42 bln at the CBR exchange rate as of the payment date).

Upstream Service and IT Companies

On May 16, 2007, Neft-Aktiv won an auction of certain upstream service and information technology companies previously owned by Yukos. Neft-Aktiv paid a total of RUB 1.80 bln (USD 0.07 bln at the CBR exchange rate as of the payment date).

Downstream Assets in European Russia

On June 15, 2007, Neft-Aktiv purchased from LLC Unitex retail and small wholesale assets (including 27 tank farms and 554 filling stations) formerly owned by Yukos and located in European Russia. Neft-Aktiv paid a total of RUB 16.32 bln for those assets (USD 0.63 bln at the CBR exchange rate as of 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, which owns assets that are an integral part of operational and management system of the upstream and downstream units previously acquired from Yukos. Rosneft and Neft-Aktiv paid a total of

RUB 87.58 bln (USD 3.38 bln at the CBR exchange rate as of the transaction date) for the above assets. The acquisition facilitated integration of the refining and marketing units previously purchased from Yukos since they had operated within a unified corporate structure.

Marketing and Power Generation Assets in Southern Russia

On July 2, 2007, Neft-Aktiv purchased marketing and power generation companies formerly owned by Yukos and located in Southern Russia through a series of auctions, after the initial winning bidder had been disqualified. Neft-Aktiv purchased the assets for a total of RUB 4.90 bln (USD 0.19 bln at the CBR exchange rate as of the transaction date).

Equipment, Licenses and Geological Information

On July 12, 2007, the Company won an auction of certain assets that primarily included property, plant and equipment, as well as licenses and geological information related to certain blocks in West and East Siberia and in the Samara region. The acquisition price amounted to RUB 6.90 bln (USD 0.27 bln at the CBR exchange rate as of the payment date).

Transportation Assets

On August 8, 2007, Rosneft won an auction of Yukos transportation assets and other property and property rights relating to the upstream segment. Purchase price was RUB 18.58 bln (USD 0.72 bln at the CBR exchange rate as of the payment date).

Rights and Receivables

On August 15, 2007, Rosneft won an auction of Yukos accounts receivables, including receivables of the Rosneft group companies such as Tomskneft and Samaraneftegaz, loans receivable, and other receivables. Rosneft paid a total of RUB 11.56 bln for the above assets (USD 0.45 bln at the CBR exchange rate as of the payment date).

Influence of Yukos Asset Acquisitions on Rosneft Results

Rosneft's acquisitions of upstream, downstream, and other assets from Yukos are expected to have a substantial impact on the Company's operating results. While it is too early to gauge the full extent of this impact, Rosneft has identified six factors that it currently expects will become crucial to its performance. These include:

- increased production of crude oil and petroleum products, the latter resulting from the increased refining capacity due to the acquisition of five new refineries
- improved margins due to the expansion of refining and retail operations, 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 improves efficiency and increase crude oil production at the newly acquired upstream assets. The growth in refining operating expenses is expected to be partially offset by lower costs at former third-party refineries, which have now been incorporated into the Group
- increased capital expenditures, both upstream and downstream, as improvements are being made to increase and optimize crude oil production and refining at the newly acquired assets
- higher depreciation, depletion, and amortization due to the increased asset base of the Group
- higher debt and interest costs attributable to financing and refinancing of the acquisitions. These costs are expected to be gradually reduced in relation to earnings as the Company implements its financial strategy aimed at achieving a debt-to-EBITDA ratio of approximately 1.0 by the end of 2010

Other Acquisitions

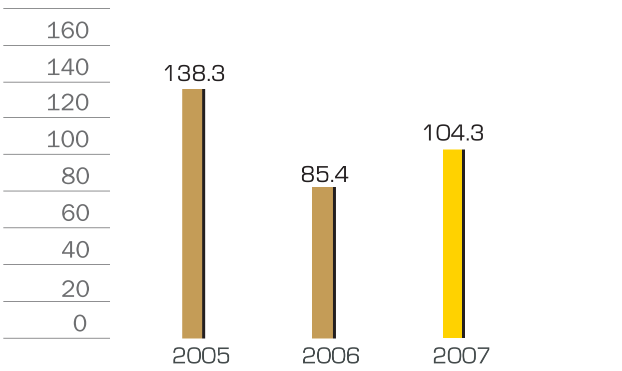
In 2007, Rosneft acquired a number of other upstream and downstream assets, including newly issued ordinary shares of OJSC Verkhnechonskneftegaz, 33 filling stations in the Moscow region and 29 in the Stavropol region. For details of Rosneft's other acquisitions in 2007, please refer to Management's Discussion and Analysis.

In 2007, Rosneft also won several auctions of licenses for exploration and production of crude oil and gas. (See Licensing)

Exploration

Exploration activities enable Rosneft to efficiently replace extracted reserves and expand its reserve base to support rapidly growing production operations. The Company carries out extensive exploration drilling and seismic surveys, and implements exploration projects in close cooperation with Russian and foreign partners.

Exploration drilling
(th. meters)



In 2007, Rosneft performed large-scale exploration activities both in Russia's major oil producing regions and abroad. The exploration expenses of Rosneft's subsidiaries totaled USD 162 mln. The Company is implementing a number of flagship projects, which are currently at the exploration or test production stage, in its key priority areas of Russia's Far East, East Siberia, and the shelf of the Caspian, Black and Azov Seas, as well as in the traditional oil producing areas of West Siberia, Middle Volga, the North Caucasus, and Timan-Pechora.

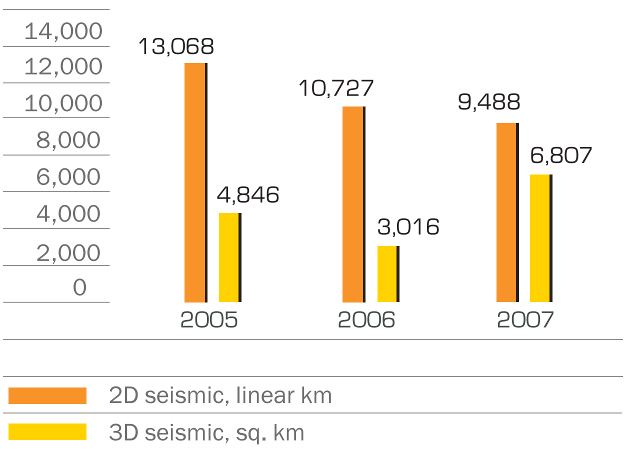
Rosneft's active participation in numerous exploration projects ensures access to considerable prospective resources, which will further support the Company's long-term development. According to DeGolyer and MacNaughton, as of December 31, 2007, the best estimate of total gross prospective resources of upstream projects with Rosneft's participation was 47.4 bln barrels of oil and 4.78 tln cu. m of gas. Rosneft's largest exploration projects in terms of prospective resources are:

- Sakhalin-5 and Kamchatneftegaz (West-Kamchatsky block) in the Russian Far East
- licensed blocks in the Irkutsk region, including the East-Sugdinsky block
- licensed blocks adjacent to the Vankor field in East Siberia
- Tuapse Trough in Southern Russia, North Caspian project, and projects in Kazakhstan
- licensed blocks of Yuganskneftegaz and Purneftegaz in West Siberia

In 2007, total exploration drilling within upstream projects with Rosneft's participation amounted to 104,300 m, including 16,700 m under exploration-stage projects. A total of 9,488 linear km and 6,807 sq. km of 2D and 3D seismic, respectively, were shot (within exploration-stage projects – 4,935 linear km and 4,928 sq. km, respectively).

In 2007, Rosneft remained the national leader in terms of reserves added per well and replacement cost of reserves. The Company completed 43 prospecting and exploration wells. Overall, extensive exploration activities in 2007 generated about 1.5 bln barrels of ABC1 crude oil reserves under the Russian classification.

Seismic surveying



The cost of reserves did not exceed USD 30 cents per barrel of oil equivalent.

The application of optimized 2D and 3D seismic surveying, data processing and interpretation, and well location techniques allowed Rosneft to significantly increase the efficiency of its prospecting and exploration activities. As a result, eight fields and seven reservoirs were discovered in 2007.

Streamlined exploration operations enabled the Company to reach an organic reserve replacement ratio of 111% in 2007 (for proved reserves under SPE classification). Total reserve replacement ratio amounted to 301%.

East Siberia

Increased exploration activities in East Siberia will significantly contribute to Rosneft's sustained accumulation of hydrocarbon reserves. East Siberia is a major source of crude oil for fast-growing Pacific Rim markets, including China, Japan, Korea, and the West Coast of the United States. Moreover, completion of the ESPO Pipeline, with potential branches to China and Nakhodka, is expected to accelerate the implementation of Rosneft's East Siberia projects.

The Company has already commenced test production at several major fields (Yurubcheno-Tokhomskoye, Verkhnechonskoye, etc.), and is about to complete infrastructure development at the Vankor field, which enjoys high reserve and production potential.

Newly acquired assets allowed Rosneft to significantly strengthen its positions in East Siberia. In July 2007, the Company won an auction of an exploration and production license to the Preobrazhensky block in the Irkutsk region. Since the East Siberia projects are associated with high exploration and economic risks, Rosneft and China National Petroleum Corporation (CNPC) established a joint venture, LLC Vostok Energy, which acquired licenses to the Verkhneichersky and West-Chonsky blocks in the Irkutsk region. In 2008, it is planned to acquire historical seismic data for these two blocks to more accurately assess their resource potential and decide upon further exploration activities. The mean estimate of total prospective resources of the Preobrazhensky, Verkhneichersky and West-Chonsky blocks is over 3.6 bln barrels of crude oil and gas condensate, and almost 490 bln cu. m of gas.

In addition, the Company acquired licenses to five blocks neighboring the Yurubcheno-Tokhomskoye field in the Evenki Autonomous District through an auction held in connection with the Yukos bankruptcy. The Yurubcheno-Tokhomskoye field is being developed by OJSC East Siberian Oil and Gas Company (VSNK), a subsidiary of Rosneft and a former subsidiary of Yukos. Aggregate prospective hydrocarbon resources of the blocks are estimated at more than 1.4 bln barrels of oil and 700 bln cu. m of gas. For 2008, Rosneft has scheduled helium and geochemical monitoring at these blocks, as well as clarifying the respective short-term exploration program.

Rosneft also continues to explore the earlier acquired blocks located in the Irkutsk region and the Evenki Autonomous District (East-Sugdinsky, Danilovsky, Mogdinsky, Sanarsky, and Kulindinsky). In 2007, the Company carried out helium monitoring, and commenced electrical and 2D seismic surveying at these blocks.

Comprehensive exploration and development of licensed blocks adjacent to the Vankor field in the Krasnoyarsk region (the Vankor group of licensed blocks) will also considerably contribute to the continued expansion of Rosneft's reserve base. The Vankor group consists of 14 licensed blocks, eight of which are located in the Krasnoyarsk region, and six in the Taimyr Autonomous District (of which two border the Yamalo-Nenets Autonomous District). These projects will greatly benefit from immediate access to the Vankor field infrastructure and, as a result, lower operating costs. According to the 2007 estimate, aggregate prospective resources of the Vankor group of licensed blocks amounted to nearly 3.9 bln barrels of crude oil and gas condensate, and more than 180 bln cu. m of gas.

In 2007, the Company was extensively engaged in the processing and interpretation of the earlier obtained seismic data for some licensed blocks of the Vankor group (West-Lodochny, Sovetsky, Polyarny, Nizhnebaikhsky, Lebyazhy, Peschany, Baikalovsky, Protochny, Samoedsky, and North-Charsky). Overall, Rosneft shot 2,195 linear km of 2D seismic and drilled 3,565 m of exploration wells. In 2008, the Company plans to drill and test two exploration wells (Vankor-16 and Polyarnaya-1), as well as to continue 2D and 3D seismic surveying, geochemical research, and development of design documentation.

Far East

Rosneft believes that offshore fields in Russia's Far East are among the most important sources of growth in its hydrocarbon reserves and production in the long run. The region is conveniently located for easy access to the fast-growing hydrocarbon markets of China, Japan, Korea, and the West Coast of the United States.

Extensive exploration activities
enable Rosneft to efficiently
replace extracted reserves
and expand the reserve base,
which is essential for successful
implementation of the Company's
long–term business strategy

The Company has been successfully developing the onshore fields of Sakhalin Island for several decades. Currently, the most promising area in the Far East is the Okhotsk Sea shelf.

Rosneft is implementing four large-scale exploration projects in the subject region:

- Sakhalin-3 (Veninsky block)
- Sakhalin-4 (West-Schmidt block)
- Sakhalin-5 (Kaigansko-Vasyukansky and East-Schmidt blocks)
- West-Kamchatka block

These capital-intensive projects bear high geological risks, and are therefore being developed in collaboration with the Company's foreign partners (BP, Sinopec, and Korea National Oil Company) on the basis of joint financing agreements. This allows Rosneft to significantly reduce engineering costs and geological risks.

On March 26, 2007, the Company and Sinopec entered into a shareholder and operating agreement for the exploration and development of a part of the Veninsky block on the shelf of Sakhalin Island (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 a stake 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 Venineft, the license owner and operator of the Sakhalin-3 project. Rosneft holds a 74.9% stake in the project, with the remaining 25.1% held by Sinopec.

In the framework of the above projects, much of the seismic data obtained in 2005–2006 was processed and reinterpreted in 2007 (about 9,500 linear km) and another 4,304 sq. km of 3D seismic were shot.

At the West-Schmidt block (Sakhalin-4), the Company drilled two exploration wells (which were liquidated after drilling), and started the processing and interpretation of the obtained geological data.

On March 13, 2007, Rosneft received a discovery certificate to the Kaigansko-Vasyukanskoye-Sea field (Sakhalin-5 project) with recoverable ABC1 reserves under the Russian classification estimated at 188 mln barrels of oil and gas condensate.

The Company also undertook extensive preparations to commence the drilling of three exploration wells in 2008 (one at the Veninsky block, the North-Veninskaya structure, and two on the West Kamchatka shelf, the North-Krutogorovskaya and West-Sukhanovskaya structures). In particular, Rosneft developed all the necessary documentation and obtained required approvals, purchased necessary equipment, signed core and auxiliary services agreements, and completed engineering-geological studies.

In addition, the Company extended licenses to the Veninsky (until 2010), Kaigansko-Vasyukansky (until 2012), and East-Schmidt (until 2010) blocks. In 2008, Rosneft plans to drill several prospecting and exploration wells, to consolidate the geological and geophysical data, and to make complex interpretation of the seismic data to ascertain the prospects of the Okhotsk Sea shelf of Sakhalin Island.

Southern Federal District

Rosneft's exploration projects in the Southern Federal District include: the Tuapse Trough and Val Shatskogo (the Black Sea shelf), the Temryuksko-Akhtarsky block (the Azov Sea shelf), and the North Caspian project (the Caspian Sea). If exploration is successful, crude oil and gas from these areas are expected to be sold to Southeast Europe and, potentially, the United States.

The Company's projects in the Southern Federal District are being developed in close cooperation with Rosneft's major Russian partners. The Val Shatskogo and North Caspian projects were acquired in 2007 through auctions held in connection with the Yukos bankruptcy.

In 2007, Rosneft shot 440 linear km and 624 sq. km of 2D and 3D seismic, respectively, as well as acquired and reinterpreted over 880 linear km of historical seismic data within the above-mentioned projects. As a result of successful exploration drilling at the Novaya structure of the Temryuksko-Akhtarsky block, the new Temryuksko-Akhtarskoye field was discovered, which gave an additional 23 mln barrels of oil reserves (under Russian classification). The Company expects to further increase its hydrocarbon reserves at the block in 2008, when the Gelendzhikskaya-1 well is completed and tested.

To build a strong asset base in the key regions of operation, in 2007, Rosneft acquired a 49.892% stake in the North Caspian project. By the end of 2007, 11 prospective structures were identified within the licensed block (West-Rakushechnaya, Karaiskaya, Ukatnaya, Zhestkaya, East-Ukatnaya, etc.). Total prospective resources of the block are estimated at 2.2 bln barrels of oil and more than 60 bln cu. m of gas (including Rosneft's share of 1.1 bln barrels of oil and over 30 bln cu. m of gas). In developing the North Caspian project, Rosneft actively collaborates with its partners, LUKOIL and Gazprom, which hold 49.892% and 0.216% stakes, respectively.

Major exploration activities performed within the above project in 2007 included interpreting 2D seismic data obtained in 2006, and preparing for extensive exploration drilling in 2008, including developing design documentation and obtaining the required approvals, purchasing necessary equipment, signing agreements for core and auxiliary services, etc. In 2008, two exploration wells are planned to be drilled at the West-Rakushechnaya and Ukatnaya structures.

In 2007, Rosneft also acquired a 100% stake in the Val Shatskogo project (the West-Chernomorsky block). The licensed block comprises of about 10 prospective structures, North-Chernomorskaya, Maria and Sklonovaya being the largest with combined prospective resources of more than 3.6 bln barrels of crude oil. Total potential resources of the block are estimated at about 4.6 bln barrels of crude oil. Over the next five years, the Company plans to drill two exploration wells and perform about 1,000 sq. km of 3D seismic surveys at the West-Chernomorsky block.

The Tuapse trough bordering the West-Chernomorsky block is another top-priority exploration area for the Company. Under this project, in 2008, Rosneft plans to process and interpret 624 sq. km of 3D seismic data obtained in 2007. Moreover, the Company will carry out comprehensive measures to launch full-scale exploration drilling at the Tuapse trough in the coming years. In particular, these measures will include contracting a drillship, preparing and submitting for approval design documentation, and obtaining permits.

International Projects

Rosneft has been implementing a number of large-scale exploration projects abroad: the 245-South block in Algeria, the Kurmangazy structure and the Aday block in Kazakhstan, and blocks 29–31 in Turkmenistan.

Comprehensive exploration activities in Algeria at the 245-South block (Rosneft indirectly holds a 30% share in the project) resulted in the discovery of the West-Takuazet and East-Takuazet oil fields, with total prospective resources of 410 mln barrels of oil and 24.6 bln cu. m of gas, and the North Tisselit gas condensate field. In 2007, significant development potential of West- and East-Takuazet was supported by a comprehensive analysis of exploration drilling data obtained in 2006. In 2007, major exploration activities at North Tisselit included the drilling of an appraisal well to confirm the reserve potential of the field. The Company is currently in the process of registering a production license to the 245-South block.

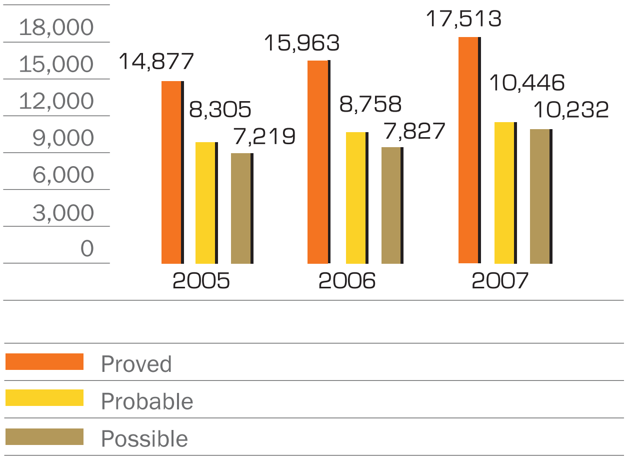
Within the Aday block, which is being explored and developed in cooperation with Sinopec on a parity basis, several prospective structures on subsalt horizons were discovered. In 2008, the Company plans to commence seismic surveying to optimize location of an exploration well.

Overall, in 2007, Rosneft performed 2,300 linear km of 2D seismic surveys in the framework of its foreign projects. Processing and interpretation of the obtained data is currently underway.

Reserves

The Company strives to efficiently replace and expand its reserve base to support accelerated production growth. As of year-end 2007, Rosneft was the world's largest publicly traded oil company in terms of proved liquid hydrocarbon reserves.

Oil reserves by category
(SPE, mln barrels)

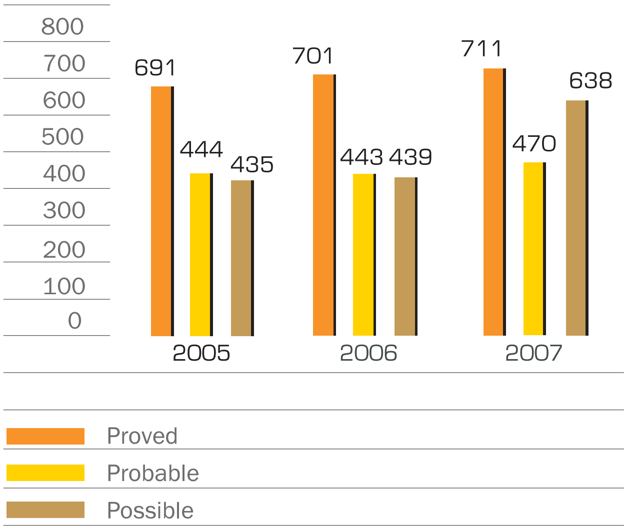


Rosneft's proved reserves under SPE classification audited by DeGolyer and MacNaughton (D&M) totaled 17,513 mln barrels of crude oil and 711 bln cu. m of gas as of December 31, 2007. Streamlined exploration operations and new acquisitions enabled the Company to maintain the highest growth rate in proved hydrocarbon reserves, which increased by 8.0% (including a 9.7% increase in crude oil reserves) compared to 2006. The proved reserve replacement ratio hit a record high for the global oil production industry, reaching 301%, while the organic reserve replacement ratio was 111%.

Due to the acquisition of Tomskneft, Samaraneftegaz, and East Siberian Oil and Gas Company (VSNK) in May 2007, Rosneft significantly expanded its reserve base in West Siberia, the Samara region, and in East Siberia. According to D&M, as of December 31, 2007, Tomskneft (including Tomsk-Petroleum-Und-Gas, which is a wholly owned subsidiary of Tomskneft) had proved reserves of 0.97 bln barrels of crude oil and 14.5 bln cu. m of gas (including Rosneft's share of 0.49 bln barrels of crude oil and 7.3 bln cu. m of gas). Samaraneftegaz had proved reserves of 0.94 bln barrels of crude oil and 5.2 bln cu. m of gas. VSNK's proved reserves stood at 0.03 bln barrels of crude oil.

Rosneft currently operates an extensive hydrocarbon reserve base in six core oil and gas provinces of the Russian Federation: West Siberia, Timan-Pechora, the Far East, Southern Russia, Central Russia, and East Siberia. More than three quarters (77%) of Rosneft's proved crude oil reserves are located in West Siberia, mainly in the Khanty-Mansiysk Autonomous District. East Siberia accounts for another 10% of the Company's proved crude oil reserves. In total, 90% of proved gas reserves are located in West Siberia, primarily in the Yamal-Nenets Autonomous District. The major part of the Company's reserves is conventional. Average life of Rosneft's proved hydrocarbon reserves (reserve-to-production ratio) is 27 years: 25 years for proved crude oil reserves and 47 years for proved gas reserves.

Gas reserves by category
(SPE, bln cu. m)



Rosneft also enjoys a significant portfolio of probable and possible reserves. At the end of 2007, the Company's probable reserves under the SPE classification were 10,446 mln barrels of crude oil and 470 bln cu. m of gas, while its possible reserves totaled 10,232 mln barrels of crude oil and 638 bln cu. m of gas. Nearly one quarter (23%) of Rosneft's probable and possible crude oil reserves are concentrated in East Siberia. This region also accounts for 17% of the Company's probable and possible gas reserves. Rosneft is rapidly expanding its operations in East Siberia, which further contributes to the Company's long-term growth.

Rosneft also presents reserve estimates under the SEC classification. According to D&M audit, as of December 31, 2007, Rosneft's proved developed and undeveloped SEC life-of-field reserves were 13,365 mln barrels of crude oil and 192 bln cu. m of gas. These estimates are based on the management's expectation that Rosneft's mineral licenses will be extended throughout the economic lives of its fields.

Licensing

In Russia, exploration and production of natural resources requires a subsoil license, as well as the right (ownership, lease or other right) to use the land plot where such licensed field is located. A license holder has the right to develop and sell crude oil and natural gas extracted from a licensed area. The Russian Federation, however, retains ownership of all subsoil resources and the license holder only has rights with respect to the crude oil and natural gas when extracted.

Licensing regulations and the terms of licenses require the Company to comply with numerous industrial standards, employ qualified personnel, maintain certain equipment and a system of quality controls, retain insurance coverage, monitor operations, make appropriate filings and, upon request, submit specified information to licensing authorities.

There are several types of prospecting, exploration and production licenses, including:

- licenses for geological exploration and assessment within a licensed area (which is defined in terms of latitude, longitude and depth)
- licenses for production of natural resources within a licensed area
- combined licenses for exploration, assessment and production of natural resources within a licensed area

Subsoil licensing is regulated primarily by the Subsoil Law. Prior to January 2000, exploration and assessment licenses were issued for a maximum term of five years, production licenses had a maximum term of 20 years, and combined exploration, assessment and production licenses were granted for a maximum term of 25 years.

After amendment of the Subsoil Law in January 2000, exploration licenses have a maximum term of five years; production licenses are generally granted for a term of expected field life based on a feasibility study, except under certain circumstances in which a license may be issued for one year; and combined licenses are issued for a term of expected field life based on a feasibility study. These amendments do not affect the terms of licenses issued prior to January 2000, and permit licensees to apply for extension of such licenses for a term of expected field life, provided the holder complies with the license terms.

The Subsoil Law permits a licensee to request extension of a production license to continue production at the licensed field to the end of its economic life or to vacate the subject land plot once production operations are finished, provided the licensee complies with the license terms and applicable regulations. To amend any condition of a subsoil license, including extension provisions, a subsoil user has to file an application with federal authorities. Rosneft believes that its production licenses will be extended upon, or prior to, their expiration. However, if the Russian Government determines that the Company fails to comply with the terms of any of its licenses, it may resolve not to extend Rosneft's mineral licenses. (see Risk Analysis)

If a subsoil user fails to comply with its license obligations, the license may be terminated by government authorities upon prior notification. However, if a subsoil licensee fails to meet deadlines or achieve exploration and/or production volumes as stipulated by a particular license due to material changes in circumstances, it may apply to amend the relevant license terms, though such amendments may be rejected by regulatory authorities.

In case of license expiration or early termination of subsoil use, all production infrastructure facilities in the respective licensed area, including underground facilities, must be removed or abandoned. In accordance with applicable regulations, all exploration, production and storage facilities must be properly maintained to ensure safety to human life, environment, and public infrastructure. Abandonment also implies shutting down the relevant oil field as well as extraction, production and storage facilities. Rosneft's estimates of future abandonment costs are based on current regulatory and licensing requirements as well as on relevant historical data. A major portion of these costs are expected to be incurred in the long run and will be funded by Rosneft in due course.

As of December 31, 2007, the Rosneft group of companies held 529 exploration and production licenses. The majority of licenses are valid until 2013–2030. Rosneft has always maintained the highest subsurface standards throughout its activities and strictly complied with its license obligations. In 2007, the Company carried out 16 license compliance and environmental protection inspections at its production subsidiaries. Based on the work performed, a set of documents was prepared and submitted to regulatory authorities. As of year-end 2007, Rosneft had no outstanding official claims from regulatory authorities.

The Company is focused on continuous expansion of its exploration portfolio through acquiring licenses in key strategic regions of operation. During 2007, the Company won several auctions of licenses for hydrocarbon exploration, development and production in East Siberia and other regions of Russia. Rosneft also acquired a number of licenses through auctions held in connection with the Yukos bankruptcy.

In July 2007, the Company won an auction of an exploration and production license to the Preobrazhensky block in the Irkutsk region. The license, worth RUB 928 mln (USD 36.3 mln at the CBR exchange rate as of the auction date), was obtained in October 2007, and expires in September 2032. Furthermore, LLC Vostok Energy, a joint venture of the Company and China National Petroleum Corporation (CNPC), where Rosneft holds 51%, won an auction of exploration and production licenses to the West-Chonsky and Verkhneichersky blocks. The blocks are located 90–120 km away from the East Siberia – Pacific Ocean pipeline, which is currently under construction. The licenses cost RUB 400 mln (USD 15.6 mln) and 780 mln (USD 30.5 mln), respectively, and expire in September 2032.

In June 2007, Rosneft's subsidiary, OJSC Samaraneftegaz, won an auction of exploration and production licenses (RUB 932 mln in total, or USD 36.0 mln) to the Sovetsky and Biryukovsky blocks in the Samara region. The licenses were obtained in June 2007, and expire in June 2027 and June 2032, respectively. As the existing fields of Samaraneftegaz are heavily depleted, the new licenses will enable the company to significantly expand its reserve base.

In December 2007, Rosneft won an auction of an exploration and production license to the South-Teplovsky block in the Khanty-Mansiysk Autonomous District. The 25-year license cost RUB 147 mln (USD 6.0 mln).

Rosneft's licensing activities in 2007 also included the following:

- 22 production licenses were extended for 25 years
- 17 applications for addendum agreements to the existing licenses were filed (extended exploration – 4 applications, rescheduling of exploration activities – 9 applications, license extension – 2 applications, and resetting the boundaries of a subsoil block – 2 applications)

Rosneft maintains the highest subsurface standards throughout its activities and strictly complies with license obligations

Production

In 2007, Rosneft became the largest oil producer in Russia. The Company's output[1] totaled 740.0 mln barrels of crude oil and gas condensate (including 712.8 mln barrels produced by the subsidiaries), and 15.70 bln cu. m of natural and associated gas (including 15.65 bln cu. m produced by the subsidiaries), up 27.0% and 15.6%, respectively, compared to 2006. The significant increase in output was largely driven by Rosneft's new acquisitions and sustained organic growth. The organic increase in oil production (excluding the 2006 and 2007 acquisitions of subsidiaries and shares in affiliates) was 6.6%, mainly due to the growth in output at the Priobskoye field in West Siberia and within the Sakhalin-1 project in the Russian Far East. The organic increase in gas production also amounted to 6.6%, primarily due to the growth in production at the fields of Krasnodarneftegaz and Purneftegaz.

The new assets (Samaraneftegaz, Tomskneft, Udmurtneft, and East Siberian Oil and Gas Company) contributed another 119.1 mln barrels of crude oil and 1.23 bln cu. m of gas. Prompt integration and implementation of efficient process and product control measures in the newly acquired companies positively influenced Rosneft's consolidated results.

In 2007, Rosneft became the first Russian oil company to hit a landmark crude production level of 100 mln tonnes a year (more than 2 mln barrels per day). In Q4 2007, crude output amounted to a record 2.12 mln barrels per day[2], which represents 21.5% of total Russian crude output. Continued development of existing proved hydrocarbon reserves and consistent application of enhanced recovery methods played an important role in the Company's superb performance.

Rosneft currently operates seven production business units and six fully consolidated production and development subsidiaries, including Samaraneftegaz, which was acquired in May 2007. A 50% stake in another subsidiary, Tomskneft (also acquired in 2007), was sold to Gazprom Neft on December 27, 2007. One half of Tomskneft's crude output is included in Rosneft's total production in 2007 from the date of sale. The Company also has a 20% stake in the Sakhalin-1 project consolidated under the proportionate consolidation method. Three production joint ventures (including Tomskneft) of Rosneft and its partners are accounted for under the equity method.

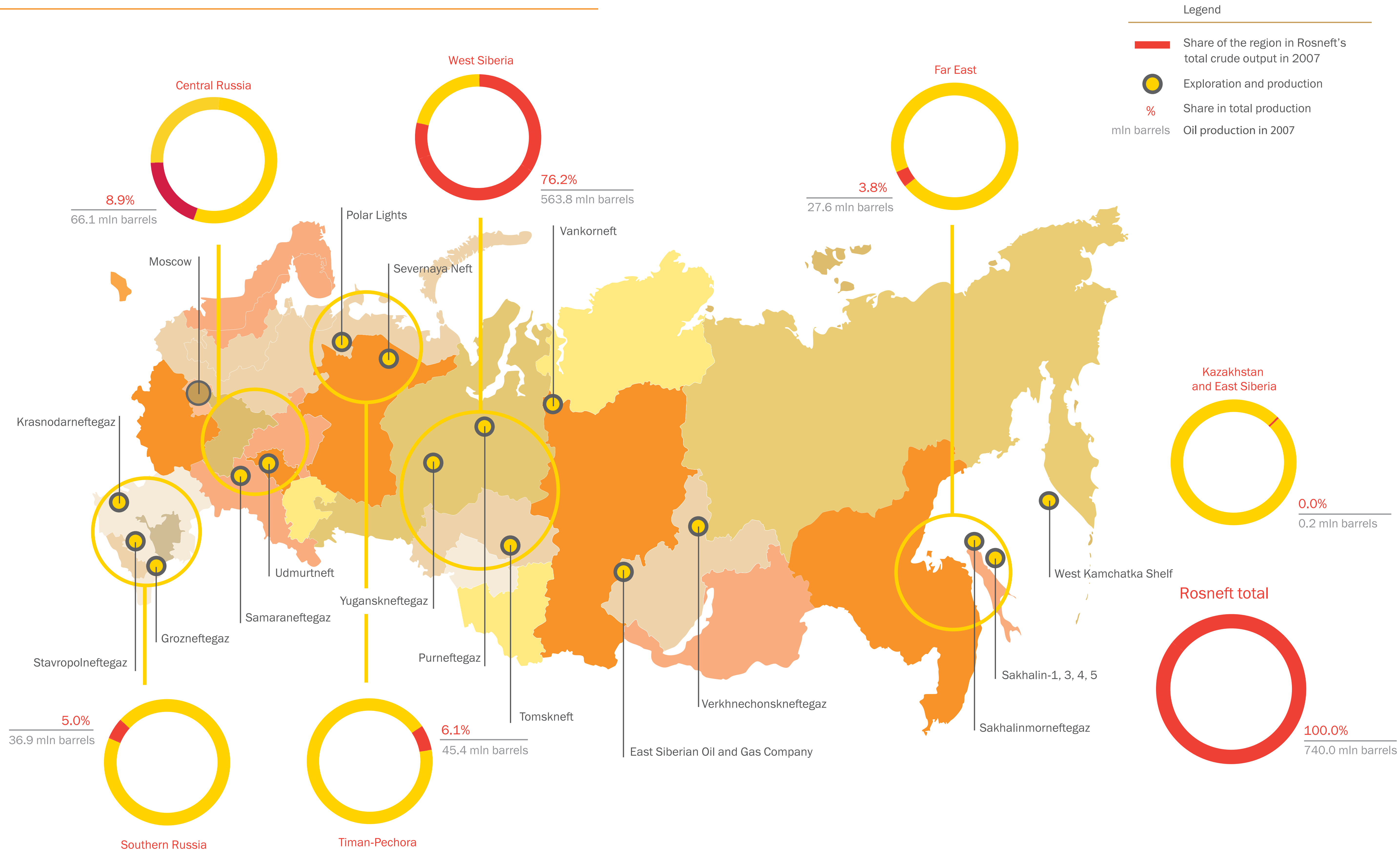
The Company's 17 production and development business units, subsidiaries, and joint ventures operate in the most promising hydrocarbon-bearing regions of Russia: West Siberia, Timan-Pechora, Central Russia, Southern Russia, the Russian Far East, and East Siberia. Yuganskneftegaz and Purneftegaz in West Siberia, and Severnaya Neft in Timan-Pechora (north of European Russia) are Rosneft's most important production and development units, collectively accounting for more than 74% of total crude oil production in 2007.

[1] Includes production of subsidiary companies and share in production of affiliates.

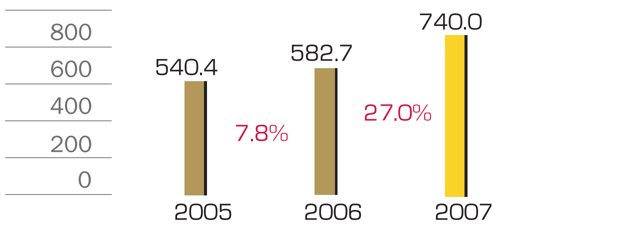
[2] Production volume is calculated based on Rosneft structure after the sale of 50% in Tomskneft, and includes only 50% of Tomskneft output in the quarter. Actual total production of Rosneft reflected in MD&A and Notes to the Financial Statements was 2.23 mln barrels per day, which includes 100% of Tomskneft production from the beginning of the quarter until December 27, 2007.

The significant increase in output was largely underpinned by Rosneft's new acquisitions and sustained organic growth

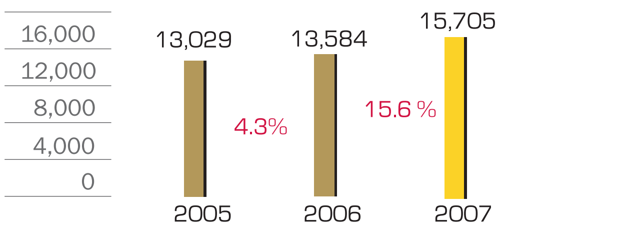
Rosneft's Regions of Oil Production



Crude oil production
(mln barrels)



Gas production
(mln cu. m)



In 2007, the production drilling grew to 2,611 thousand m. In the review period, the Company commissioned 648 new oil production wells. The output of crude oil at new wells totaled about 77 mln barrels, while the average flow rate was 713 barrels per day, close to the previous-year figure. Average flow rate of the new well stock, net of effects from the 2007 acquisitions, was 740 barrels a day, a 3.6% growth over 2006, which was mainly attributable to further development of well design and construction techniques. The average flow rate of all production oil wells inched down to 94 barrels a day. That was explained by lower well efficiency at the newly integrated enterprises. In 2007, Rosneft's average oil flow rate, net of effects from the 2007 acquisitions, increased by 6% to 116 barrels a day.

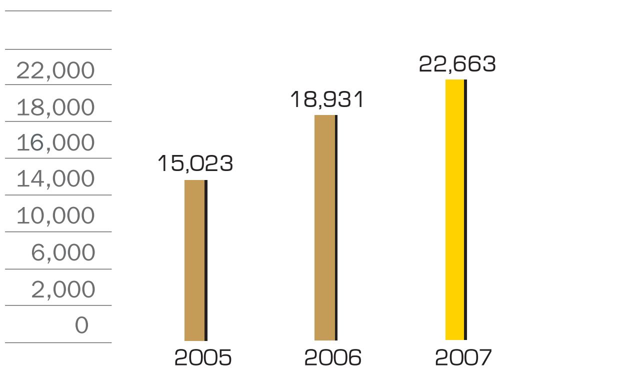
Development costs of Rosneft's subsidiaries totaled USD 4,624 mln, up 65.4% year-on-year. This growth was primarily due to the acquisition of new assets and cost inflation (including the real appreciation of the ruble against the US dollar of 16%). Upstream production and operating expenses were USD 2,482 mln, or USD 3.48 per barrel of crude oil produced and USD 3.08 per barrel of oil equivalent produced (in 2006 – USD 2.83 and 2.49, respectively). Upstream production and operating expenses in 2007, excluding Sakhalin-1 costs and costs relating to Tomskneft and Samaraneftegaz, were USD 2.94 per barrel of crude oil produced and USD 2.58 per barrel of oil equivalent produced. The growth in upstream production and operating expenses resulted mainly from an increase in the volume and cost of geotechnical operations, higher electricity costs, and the real ruble appreciation against the US dollar. Rosneft's production and operating expenses per barrel produced are the lowest among publicly traded global petroleum companies.

West Siberia

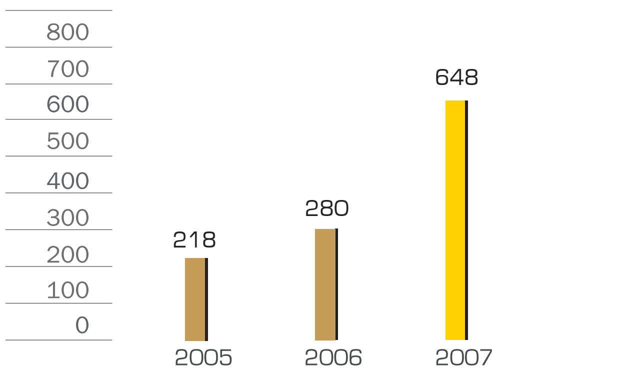
Khanty-Mansiysk Autonomous District (KhMAD)

In 2007, the Khanty-Mansiysk Autonomous District remained Rosneft's primary reserve base. Along with its brownfield projects in the region, the Company is actively engaged in greenfield developments (i.e., Priobskoye, Prirazlomnoye, etc.) that have low depletion rates. The Company's Priobskoye field ranks first in terms of crude output and proved oil reserves (27% and 30% of Rosneft's total, respectively). It also accounted for most of Rosneft's crude oil production growth in 2007.

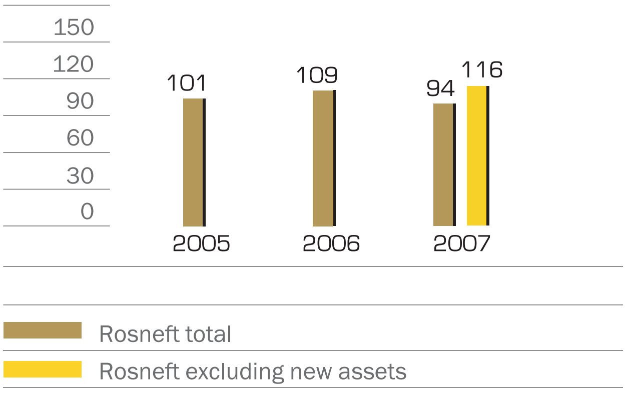
Operating oil production wells
(wells)



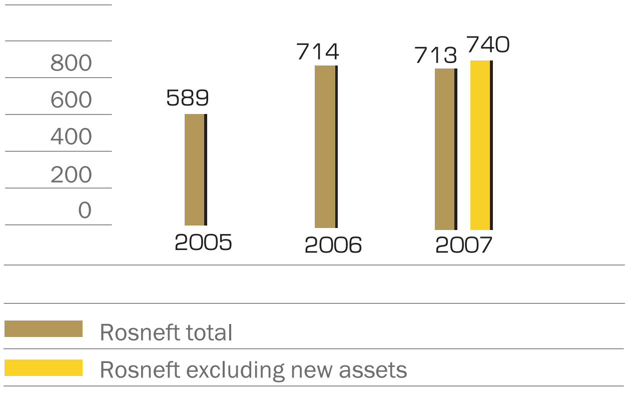
New oil production wells
(wells)



Average flow rate of Rosneft's production oil wells
(barrels per day)



Average flow rate of Rosneft's new production oil wells
(barrels per day)



To maximize the efficiency of production operations at the fields of KhMAD, Rosneft extensively applies cutting-edge reservoir development methods. Consistent use of recovery enhancement techniques, such as well workovers, sidetracking, and hydrofracturing, enables Rosneft to sustain production growth even at its mature fields. Most production wells are equipped with electrical submersible pumps; to maintain reservoir pressure, water injection is used.

The drilling of production wells in KhMAD grew to 1,667 thousand m, up 37% compared to 2006. The Company commissioned 417 new oil production wells. The average flow rate of Rosneft's new well stock in KhMAD reached 769 barrels per day, which was far above Russia's average. The average flow rate of all production oil wells amounted to nearly 157 barrels per day. High flow rates and reserve concentration allow the Company to efficiently control unit production costs.

In 2007, Rosneft's total output in KhMAD was 441.8 mln barrels of crude oil and 1.52 bln cu. m of associated gas, up 7.8% and 1.2% against the respective prior-year figures. The region accounted for most of Rosneft's organic crude production growth.

Yamalo-Nenets Autonomous District (YaNAD)

In the Yamalo-Nenets Autonomous District, Rosneft intensified its effort to improve field exploration and production techniques, as well as to develop comprehensive solutions for associated gas utilization. Rosneft's principal achievements in 2007 include the implementation of an advanced system to efficiently employ idle wells, mainly by sidetracking.

In 2007, the Company's total output in YaNAD was 67.2 mln barrels of crude oil and gas condensate, and 7.61 bln cu. m of natural and associated gas. YaNAD is the main gas production region of Rosneft. In 2007, its share in the Company's total proved gas reserves and total gas output was 77% and 48%, respectively. The region accounted for most of Rosneft's organic gas production growth.

High concentration of Rosneft's reserves in YaNAD (the Komsomolskoye, Tarasovskoye, Barsukovskoye, and Kharampurskoye fields jointly account for more than 70% of reserves) is conducive to cost-efficient field development and production.

Tomsk Region

In Q2 2007, Rosneft won an auction of a 100% stake in OJSC Tomskneft (a former Yukos subsidiary). The company was founded in 1966 to develop oil and gas fields in the Tomsk region. On December 27, 2007, Rosneft sold 50% of Tomskneft to a subsidiary of Gazprom Neft.

Tomskneft operates several old fields with watercut of more than 80% (Nizhnevartovskoye, Strezhevskoye, Chkalovskoye, Oleniye, and Sovetskoye), as well as new fields, Krapivinskoye, Dvurechenskoye, West-Moiseevskoye, and Igolsko-Talovoye, which are currently at the initial development stage. Tomskneft's largest field, Sovetskoye, was discovered in 1962 and launched in 1966. Tomskneft's production facilities are located in proximity to Rosneft's Siberian refineries, which ensures lower transportation costs and more efficient supplies. The company reached peak production of about 138 mln barrels of crude in 2004.

In 2007, Rosneft's share in the production of Tomskneft[3] amounted to 55.4 mln barrels of crude oil and 1.03 bln cu. m of gas.

[3] 100% of production from the date of acquisition to the date of sale of a 50% stake, and 50% of production from the date of sale to the end of 2007.

Timan-Pechora

In the promising Timan-Pechora oil and gas province, the Company operates via its subsidiary LLC Rosneft–Severnaya Neft, which has been developing the Val Gamburtseva and Baganskaya groups of fields in the Komi Republic and the Nenets Autonomous District. Severnaya Neft is the Company's fourth largest oil production unit after the newly acquired Samaraneftegaz.

Despite gradual depletion of Rosneft's resources in Timan-Pechora, in 2007, the Company maintained an annual output of 41.1 mln barrels (equals to the prior-year figure). That was largely possible due to streamlined development and timely implementation of innovative exploration and production techniques.

In the north of the Timan-Pechora oil and gas province, LLC Polar Lights, a joint venture between Rosneft and ConocoPhillips, is developing four oil fields of the Ardalinskaya group (Ardalinskoye, East-Kolvinskoye, Oshkotynskoye, and West-Oshkotynskoye). ConocoPhillips and Rosneft each have a 50% stake in the joint venture, with ConocoPhillips serving as the operator. In 2007, the company produced 8.5 mln barrels of crude oil (including Rosneft's share of 4.3 mln barrels, or 50% of the total), a decrease of 2.8% compared to 2006.

Sakhalin Island (Onshore and Offshore Projects)

Rosneft's subsidiary Sakhalinmorneftegaz is engaged in onshore hydrocarbon production in the north of Sakhalin Island. Approximately 10% of Sakhalinmorneftegaz crude oil is currently produced using enhanced recovery techniques, primarily thermal treatment (hot steam injection), to extract high-viscosity crude. In 2007, the company produced about 13 mln barrels of crude oil.

Rosneft also holds a 20% stake in the Sakhalin-1 project (Chaivo, Odoptu, and Arkutun-Dagi offshore fields). Due to commencement of full-scale operations at Chaivo in 2007, the Sakhalin-1 project reached a peak output of about 82 mln barrels (including a net Rosneft share of almost 15 mln barrels), more than a fourfold increase compared to 2006. Sakhalin-1 was another key driver of Rosneft's organic growth in crude oil output.

In 2007, Rosneft's total output in the region was 27.6 mln barrels of crude oil and 0.97 bln cu. m of gas. The Company's production of crude oil more than doubled due to major progress with the Sakhalin-1 project. Rosneft's Sakhalin developments benefit from direct access to the Komsomolsk refinery, as well as the proximity to increasingly lucrative Asia-Pacific markets.

Middle Volga and Udmurt Republic

In Q2 2007, Rosneft acquired a 100% stake in OJSC Samaraneftegaz, which develops more than 120 fields in the Samara region. The largest fields are West-Kommunarnoye, Belozersko-Chubovskoye, Ozerkinskoye, and South-Neprinkovskoye. All fields are connected to necessary infrastructure, including the Transneft pipelines passing through the Samara region. Although the majority of fields have been in operation for some time, the region still enjoys high production potential. Development of petroleum resources in the Samara region will remain economically efficient since the Company's production facilities are close to Russia's most important refining hub.

In 2007, Rosneft produced 27.6 mln barrels of crude oil and 0.97 bln cu. m of gas within onshore and offshore Sakhalin projects

In 2007, Samaraneftegaz total output[4] was 43.9 mln barrels of crude oil and gas condensate, and 0.17 bln cu. m of gas.

In the Udmurt republic, a joint venture between the Chinese Sinopec and Rosneft operates OJSC Udmurtneft, acquired from TNK-BP in 2006 (the joint venture has a 96.86% stake in the company). Rosneft owns 51% of the joint venture, while Sinopec holds the remainder. Udmurtneft has 57 subsurface licenses and develops 26 oil fields.

Despite high depletion of its resource base, in 2007, Udmurtneft made extensive use of the most recent advances in recovery methods, and managed to maintain annual output at 45.0 mln barrels (including Rosneft's share of 22.2 mln barrels, or 49.4% of the total).

Southern Federal District

As of year-end 2007, Rosneft held development and production licenses to more than 150 oil and gas fields in the Southern Federal District of Russia. The Company's production facilities are located in the Krasnodar region, Chechen republic, Stavropol region, and Dagestan republic.

Fields of the Southern Federal District, Russia's oldest oil-producing region, enjoy a unique combination of quality crude oil and proximity to major ports of the Black Sea and the Tuapse refinery.

The Company's major achievements in this region in 2007 included the commissioning of the East-Chumakovskoye field (in the Azov Sea) and successful completion of unprecedented sidetracking operations at the North-Dzhalinskoye field (the Chechen republic).

In 2007, Rosneft's total output in the Southern Federal District amounted to 36.9 mln barrels of crude oil and gas condensate, and 3.98 bln cu. m of gas. The Company is also increasingly focused on enhancing and expanding its Gas Program, which is crucial for continued development of the regional energy market.

East Siberia

Comprehensive exploration and development of untapped hydrocarbon resources of East Siberia is among Rosneft's strategic priorities. In 2007, the Company commenced intensive drilling at one of the largest fields in the region, Vankor (north of the Krasnoyarsk region), which holds 1.46 bln barrels of proved oil reserves.

In 2007, the Company conducted 8,900 m of exploration drilling and completed the Vankor 13 and 15 exploration wells. Rosneft also continued drilling operations at the Khikiglinskaya-1 prospecting and appraisal well. Extensive exploration of Vankor in 2007 enabled the Company to add more than 250 mln barrels of proved reserves.

In 2007, Rosneft also drilled 78,400 m of production wells at Vankor, and completed a cementing infrastructure that will be commissioned in 2008. Rosneft plans to drill the Vankor field primarily with horizontal wells, 75% of which will have smart completion. Most production wells will be equipped with submersible pumps, however, some will employ gaslift technology. Gas and water injection will be used to maintain reservoir pressure.

The Company also started commercial operations at the Vankor-9 exploration well, and began oil production to ensure adequate fuel supplies to drilling crews. In 2007,

[4] From the date of acquisition to the end of 2007.

A joint venture between the Chinese Sinopec and Rosneft operates OJSC Udmurtneft, which has 57 subsurface licenses and develops 26 oil fields in the Udmurt republic

Rosneft's total output at Vankor was 18,500 barrels of oil and 45.5 mln cu. m of gas.

In addition, core equipment for Phase I of the gas turbine power station was delivered to Vankor. Within this project, Rosneft started construction of the main building and completed a cast-in-place footing for turbines and generators. The Company also installed tank farms, commissioned an electricity network, and completed a shift camp for 1,220 people.

Crude oil from the Vankor field will be transported via the proprietary 550 km Vankor-Pur-Pe pipeline, which is currently under construction. The Vankor-Pur-Pe pipeline will, at a junction close to Purneftegaz fields, connect to a Transneft trunk pipeline, which, in turn, is expected to connect to Transneft's East Siberia – Pacific Ocean (ESPO) pipeline. Crude oil from other regional producers could also be shipped via the Vankor-Pur-Pe pipeline. Before the completion of ESPO pipeline crude oil from the Vankor field will be delivered westward through Transneft's trunk pipeline system.

Once Transneft's ESPO pipeline is completed, Rosneft will be able to reach peak crude oil production at Vankor and accelerate the development of adjacent licensed blocks. The Company believes that annual crude oil output at the Vankor field will be at least 157 mln barrels (430,000 barrels per day). However, since Vankor has a remarkably vast reserve base, its output potential may be much higher. Rosneft is currently evaluating alternative production targets for the field.

In May 2007, the Company acquired 70.78% of OJSC East Siberian Oil and Gas Company at auctions held in connection with the Yukos bankruptcy. OJSC East Siberian Oil and Gas Company owns an exploration license to the Agaleevsky gas condensate block in East Siberia, as well as an exploration and production license to the major Yurubcheno-Tokhomskoye oil and gas field. Despite the Yurubcheno-Tokhomskoye field's remote location from existing infrastructure facilities, it has a competitive combination of high-quality crude and proximity to Rosneft's refining assets.

The Yurubcheno-Tokhomskoye field will be developed in parallel with Rosneft's other fields and licensed blocks in the Irkutsk and Krasnoyarsk regions, including the Verkhnechonskoye field and the East-Sugdinsky licensed block, which are all planned to be connected to a pipeline that will link into ESPO pipeline northward from Baikal Lake, close to the Verkhnechonskoye field.

Rosneft is also exploring the possibility to ship all crude output from the Yurubcheno-Tokhomskoye field to the Achinsk refinery, which, given the high quality of oil produced at the field, would enable the refinery to significantly increase its light product yield.

In 2007, Rosneft's output in East Siberia totaled 116,000 barrels of crude oil, which were mostly used for purposes of local field operation as well as housing and utilities companies.

Gas Utilization Program

Improving the utilization of associated gas has been among Rosneft's top priorities. The associated gas utilization ratio was 60.0% in 2007 compared to 59.0% in 2006. In 2007, the Company continued implementation of a major infrastructure program aimed at optimizing gas utilization and attaining a target utilization ratio of 95%. The comprehensive gas program will also enable Rosneft to expand its generating capacity and significantly reduce operational risks.

In 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 parity joint venture

In 2007, Rosneft drilled 78.4 thousand meters of production wells at the Vankor field that will own the Yuzhno-Balyk Gas Processing Plant, currently owned by OJSC SIBUR. Under this agreement, Yuganskneftegaz will supply associated gas to the Yuzhno-Balyk Gas Processing Plant. Each party will be entitled to 50% of total associated gas once processed. The parties intend to increase the processing of associated gas to 3 bln cu. m per year by 2010, with the option to handle additional associated gas should gas production at Rosneft's fields rise. The Yuzhno-Balyk Gas Processing Plant currently processes 1.5 bln cu. m of associated gas produced at Yuganskneftegaz fields.

In 2007, Rosneft commissioned a compressor station and a pipeline that links the Priobskoye field with the Yuzhno-Balyk Gas Processing Plant. This will allow the Company to increase gas supplies from the Priobskoye field by approximately 700 mln cu. m.

The Gas Program also envisages joint implementation projects, in accordance with Article 6 of Kyoto Protocol to the United Nations Framework Convention on Climate Change. Thus, in 2007, the World Bank and Rosneft agreed to develop a gas flaring reduction program, under which emission reduction units could be bought by the World Bank's Carbon Finance Division. The program will be implemented in the framework of a gas utilization project currently underway at the Komsomolskoye field (YaNAD).

Refining, Petrochemicals and Gas Processing

2007 was a milestone year in the development of Rosneft's refining segment. The Company acquired five new major refineries in East Siberia and the Samara region, increasing its total refining capacity to 415 mln barrels (1,137 thousand barrels per day). The new assets enabled the Company to achieve a better balance between refining and crude oil production. Currently, Rosneft is able to handle at company-owned refineries more than 50% of crude oil it produces.

In 2005, after the acquisition of Yuganskneftegaz, Rosneft began processing a portion of its crude oil under long-term tolling arrangements with Yukos refineries: the Achinsk and Angarsk refineries in East Siberia and the Kuibyshev, Novokuibyshevsk, and Syzran refineries in the Samara region. In May 2007, Rosneft acquired these assets at auctions held in connection with the Yukos bankruptcy.

Favorable location of Rosneft's refineries ensures successful oil product marketing both domestically and abroad

Rosneft's Refining Operations

Rosneft total *

353.7
291.8
414.9

Samara group of refineries

Syzran Refinery

48.3
37.9
64.8

Novokuibyshevsk Refinery

54.3
45.3
69.9

Kuibyshev Refinery

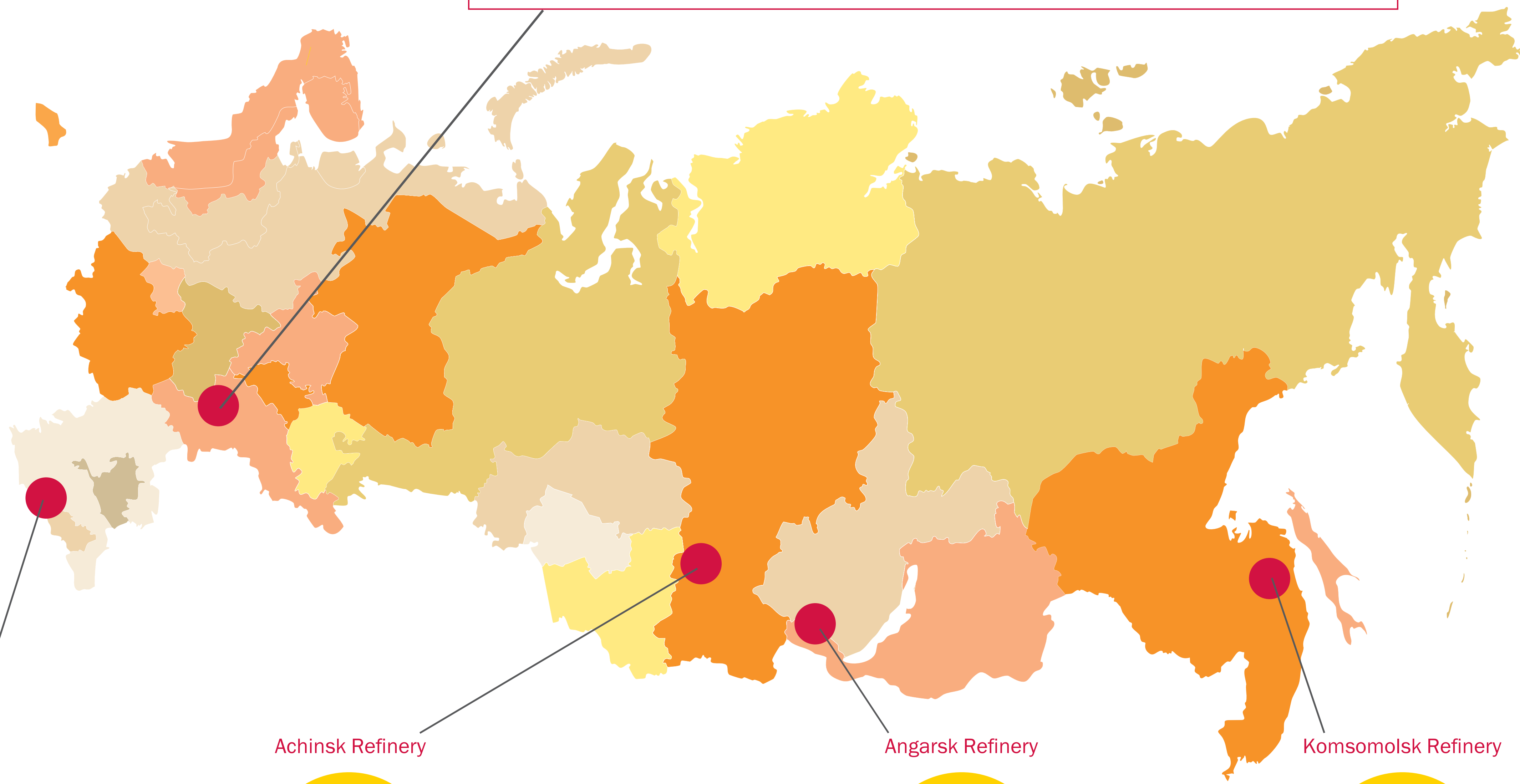
46.9
38.7
51.2

Legend

Rosneft refineries

* Excluding mini-refineries

Total throughput in 2007, mln barrels
Throughput of Rosneft's crude, mln barrels
Capacity, mln barrels



Tuapse Refinery

38.2
38.2
36.6

Achinsk Refinery

46.9
34.3
47.5

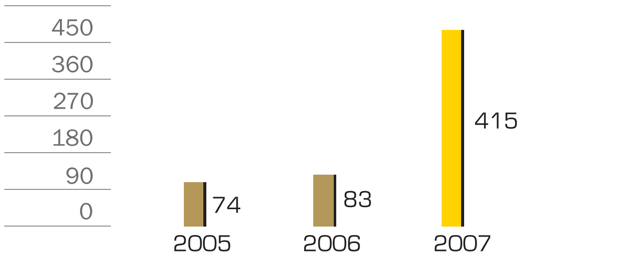
Angarsk Refinery

67.7
46.0
98.0

Komsomolsk Refinery

51.3
51.3
46.9

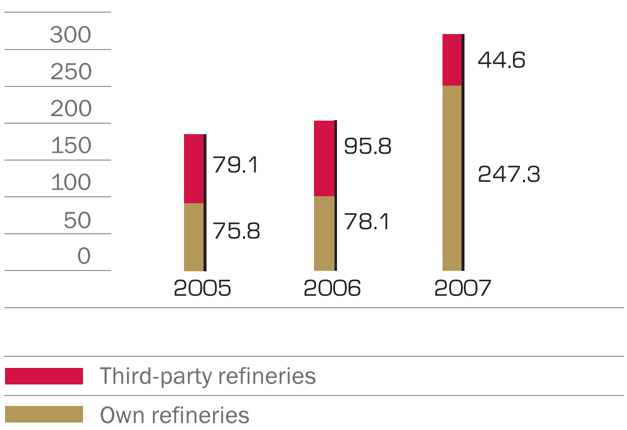
Capacity of Rosneft's own refineries
(mln barrels)



As of December 31, 2007, Rosneft owned and operated seven major refineries: the newly acquired refineries, as well as the Tuapse refinery on the Black Sea coast in Southern Russia and the Komsomolsk refinery in the Russian Far East. The Company also owned three mini-refineries at Purneftegaz, in Usinsk, and in Kabardino-Balkaria.

In 2007, Rosneft processed 294.1 mln barrels (40.20 mln tonnes) of produced and acquired crude oil at company-owned and former Yukos refineries (including mini-refineries), an increase of 67.5% compared to 2006. This considerable growth is partly explained by the organic increase in throughput at the Tuapse and Komsomolsk refineries, as well as by the acquisition of new refineries, which enables Rosneft to replace third-party crude with its own or purchased feedstock. The increase in refining volumes is also attributable to the acquisition of major upstream assets that have traditionally delivered their crude oil to the newly acquired refineries.

Refining of own and purchased crude oil
(mln barrels*)

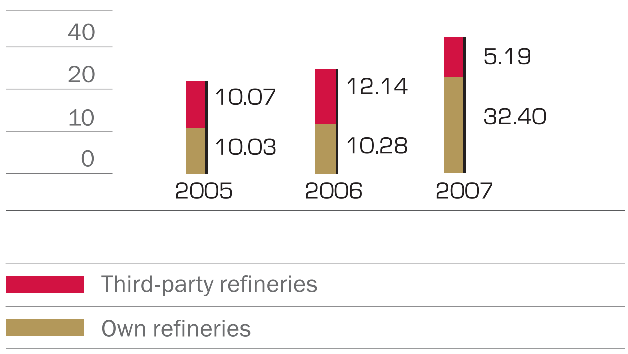


* Excluding mini-refineries

In 2007, former Yukos assets processed 61.9 mln barrels (8.46 mln tonnes) of non-Rosneft's crude oil that primarily included feedstock produced by former Yukos upstream assets prior to their acquisition by Rosneft. In 2007, the average capacity utilization rate at Rosneft's own refineries and former Yukos assets was about 85%, which indicates strong potential for further increases in throughput.

In 2007, Rosneft produced 38.28 mln tonnes of petroleum products from its own and acquired crude processed at company-owned and recently acquired former Yukos refineries, up 69.1% compared to 2006. The acquisition of new refining assets enabled Rosneft to achieve a more diversified product mix and to increase the yield of better quality, higher value-added products.

Petroleum product output from own and purchased crude oil
(mln t*)

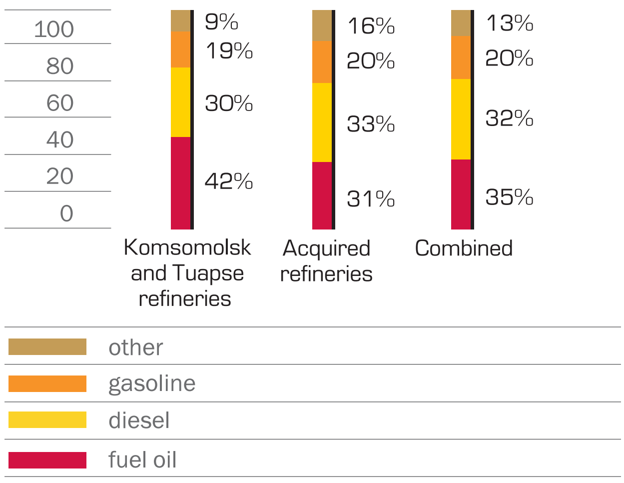


* Excluding mini-refineries

Favorable refinery locations ensure the Company's successful petroleum product marketing both domestically and abroad. The Samara group of refineries (Kuibyshev, Novokuibyshevsk, and Syzran refineries) supplies oil products mainly to Central Russia. Oil and petroleum product transshipment facilities, access to the Transnefteprodukt pipeline system, as well as loading terminals on the Volga River allow rail, pipeline, and marine transportation of petroleum products to European markets. Petroleum products from the Angarsk refinery, the Achinsk refinery, and the Komsomolsk refinery are sold in Siberia and Far East. Export markets for such products include Mongolia, China, and other fast-growing Asian economies. The Tuapse refinery in the Krasnodar region is a major petroleum product supplier to the rapidly developing Southern Federal District. The refinery's convenient location on the Black Sea coast enables efficient exporting of petroleum products.

Rosneft's development strategy envisages comprehensive refinery upgrades and expansion to further enhance or at least maintain the existing balance between crude output and refinery throughputs, and to boost the production of petroleum products meeting the latest environmental and quality standards. Rosneft believes that this strategy will enable it to capture higher margins on petroleum product sales, as well as to sustain its competitive position in international markets by strictly complying with the more stringent quality standards applicable in foreign jurisdictions.

Structure of petroleum product output in 2007*
(%)



* Excluding mini-refineries. Based on throughput of Rosneft's crude

Rosneft is also considering constructing a new refinery in the Russian Far East, which is planned to be located at the end of the ESPO pipeline. The refinery will enjoy direct access to fast-growing Asian markets, such as China, Japan and Korea, and is expected to have a capacity of 145 mln barrels (20 mln tonnes).

The Company owns the Moscow plant OJSC Rosneft-MZ Nefteprodukt that produces specialty oils and lubricants, and OJSC Novokuibyshevsk Oils and Additives Plant. In 2007, these plants produced 7.3 and 317.5 thousand tonnes of oils, lubricants, and additives, respectively.

The Company also owns the Angarsk Polymer Plant, which is an integral part of the Angarsk refinery. The plant produces olefins, benzene, and polyethylene. It processes about 727 thousand tonnes of straight-run gasoline and liquefied gas annually.

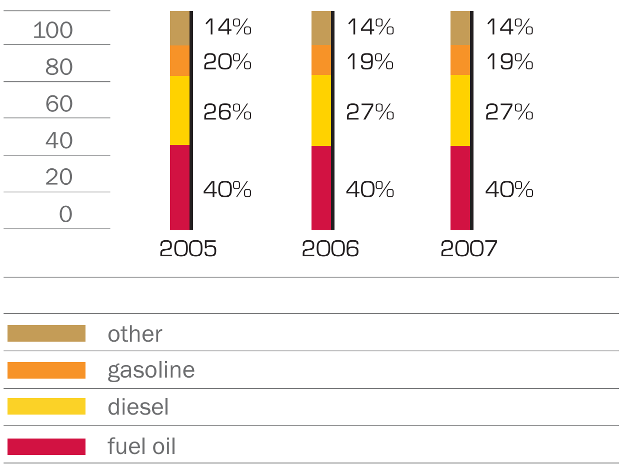
Rosneft processes a part of its associated gas at the Neftegorsk and Otradny gas processing plants, with an annual throughput of 273 and 274 mln cu. meters, respectively. Key processing stages include gas treatment, compressing, stripping, and sweetening.

Komsomolsk Refinery

The Komsomolsk refinery has been part of Rosneft since the Company's establishment. Located in Komsomolsk-on-Amur in the Khabarovsk region of the Russian Far East, the refinery has access to West Siberia and Sakhalin crude. The Sakhalinmorneftegaz pipeline connects the Komsomolsk refinery to the Sakhalin fields. The West Siberia crude oil is delivered via the Transneft pipeline and then by rail after reloading at the Zuy rail junction near Angarsk. Since March 2006, feedstock is also reloaded at the Uyar rail junction near Krasnoyarsk.

Petroleum products from the Komsomolsk refinery are distributed in the Russian Far East by rail and road, and are also transported by rail for further export via marine terminals, including Rosneft's reloading facilities at Nakhodka and third-party Vanino marine terminal. The refinery is Rosneft's key supplier of petroleum products to wholesalers in the Russian Far East, as well as to the regional network of proprietary filling stations.

Structure of petroleum product output at Komsomolsk refinery
(%)



In 2007, the refinery operated at full capacity. Its crude runs totaled 51.3 mln barrels (7.02 mln tonnes), a 7.9% increase over the previous year, while petroleum product output reached 6.81 mln tonnes.

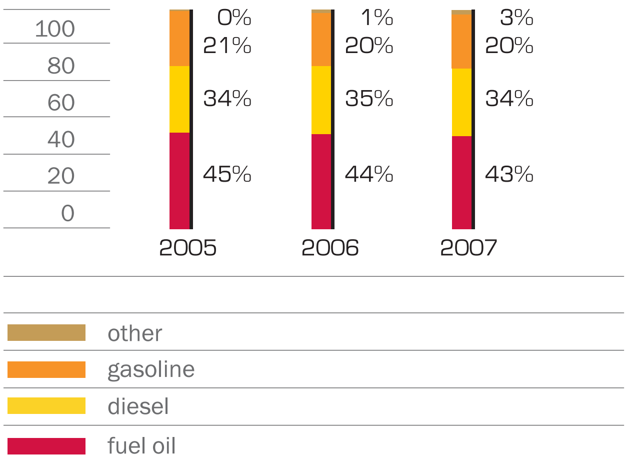
The Company is carrying out a comprehensive upgrade program at the refinery, intended to substantially increase the conversion ratio and maximize the production of middle distillates under Euro-4 and Euro-5 standards, mainly diesel and jet fuel, which are projected to account for approximately two-thirds of the refinery's total output.

The upgrade is scheduled to run through 2012, and is expected to bring the plant's refining capacity to 59 mln barrels (8.0 mln tonnes) per year. The program also envisages the construction of a delayed coking unit and a hydrocracking unit with an annual capacity of 1.0 mln tonnes and 1.7 mln tonnes, respectively.

In 2007, the Komsomolsk refinery completed the upgrade of the AVT-3 crude distillation unit to an annual capacity of 37 mln barrels (5.0 mln tonnes). The unit was also shifted to a 3-year interrepair cycle. The refinery also launched the construction of a delayed coking facility, which will allow increasing refining depth from 60% in 2007 to 75% in 2009. In addition, design activities under a comprehensive hydrocracking project were started.

Structure of petroleum product output at Tuapse refinery

(%)



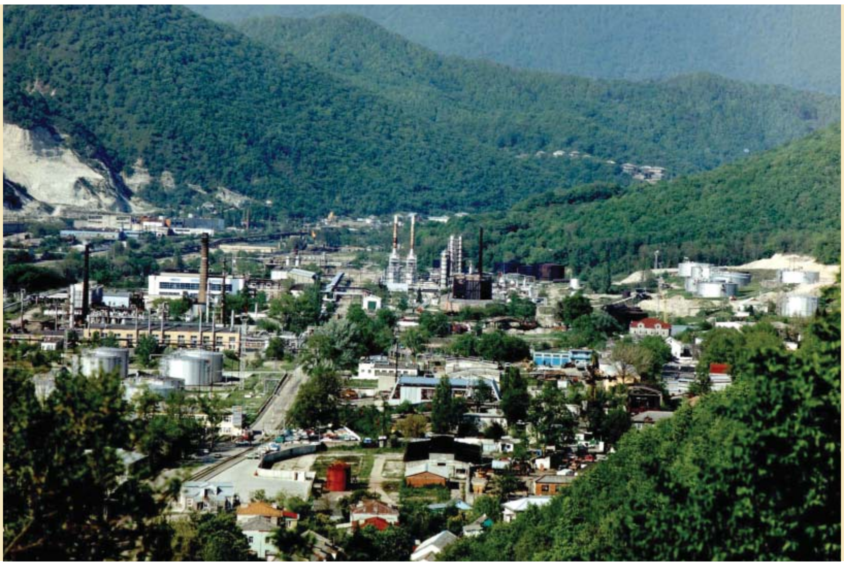
Tuapse Refinery

The Tuapse refinery is located in the Krasnodar region, and has been part of Rosneft since the Company's establishment. It is the only Russian refinery on the Black Sea coast and a major crude oil processing center in Southern Russia. The refinery has access to crude oil from West Siberia, which is delivered via the Transneft pipeline system, and to Southern Russia crude delivered via the Transneft pipeline system and by rail. Approximately 90% of petroleum products from the refinery are exported through Rosneft's own terminal in Tuapse, while the rest is sold domestically by the Company's marketing units.

In 2007, the plant operated at full capacity and processed 38.2 mln barrels (5.23 mln tonnes) of crude oil, a 21.7% increase compared to 2006. The refining depth was 56%, and petroleum product output amounted to 5.10 mln tonnes.

The Company is now implementing a major two-phase project to expand and upgrade the Tuapse refinery. Within Phase I, which is expected to be completed by 2011, the plant's refining capacity will be increased to approximately 88 mln barrels (12 mln tonnes). Phase II is scheduled for completion in 2012, and envisages the upgrade of the refinery's core processes, which will allow producing Euro-4 and Euro-5 gasoline and diesel fuel. The Company aims to increase the plant's light product yield up to 95%.

In 2007, the plant was actively engaged in the maintenance of its existing production infrastructure and the construction of new facilities. In particular, the Company obtained the necessary licenses and started design and engineering activities under the following projects: hydrocracking of a mixture of vacuum gas oil and heavy coker gas oil, diesel fuel hydrotreatment, hydrogen production, naphtha isomerization and hydrotreatment, catalytic reforming, delayed coking and sulphur production. The refinery also completed the design and engineering stage of the AVT-12 project



Tuapse Refinery in the Krasnodar region has been part of Rosneft since the Company's establishment (atmospheric and vacuum distillation units and a naphtha hydrotreatment unit).

Novokuibyshevsk Refinery

The Novokuibyshevsk refinery started operations in 1951. It is part of the Samara group of refineries acquired by Rosneft in 2007. The plant's core production facilities include: primary distillation, catalytic reforming, kerosene and diesel fuel hydrotreatment, and catalytic cracking units; equipment for production of various grades of gasoline; a bitumen unit; and gas fractioning facilities. A substantial part of crude feedstock comes to the refinery from Yuganskneftegaz and Samaraneftegaz.

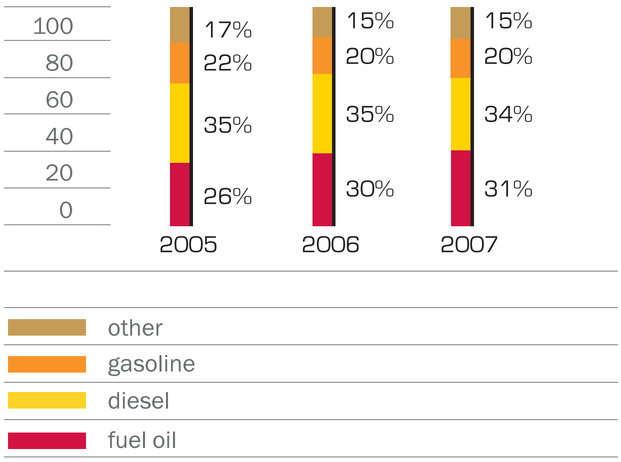
As of December 31, 2007, the plant's crude oil distillation capacity was 70 mln barrels (9.6 mln tonnes) per year. In 2007, the refinery's capacity utilization rate amounted to 78%. Its crude runs totaled 54.3 mln barrels (7.43 mln tonnes), 3.5% more than in 2006, the average refining depth being 77.4%. The plant's petroleum product output amounted to 6.93 mln tonnes. In 2007, the Novokuibyshevsk refinery processed 45.3 mln barrels (6.20 mln tonnes) of the Company's crude.

In 2007, the plant switched to more efficient hydrotreatment catalysts that allow production of diesel fuel in compliance with current European standards. To reduce operating costs and increase output, the refinery upgraded its power generating facilities to run on natural gas. In addition, the plant launched production of road bitumen that can withstand repeated cycles of abrupt temperature changes.

Kuibyshev Refinery

The construction of the Kuibyshev refinery began in 1943, and two years later, the first crude was processed.

Structure of petroleum product output at Samara group of refineries
(%)



The plant is part of the Samara group of refineries acquired by Rosneft in 2007. Its core production facilities include primary distillation, catalytic reforming, fuel hydrotreatment, catalytic cracking, and visbreaking units. The Kuibyshev refinery specializes in the production of high-quality gasoline and other fuels. A substantial part of crude feedstock is sourced from Yuganskneftegaz and Samaraneftegaz.

As of December 31, 2007, the plant's crude oil distillation capacity was 51 mln barrels (7.0 mln tonnes) per year. In 2007, the capacity utilization rate totaled 92%. The refinery's crude throughput equaled 46.9 mln barrels (6.42 mln tonnes), a 2.0% increase over the prior year, while the average refining depth was 60.6%. The plant's petroleum product output totaled 5.93 mln tonnes. In 2007, the Kuibyshev refinery processed 38.7 mln barrels (5.29 mln tonnes) of the Company's crude.

In 2007, petroleum product output of the Samara group of refineries totaled 19 mln tonnes

In 2007, the plant continued construction of a hydrogen production facility with a short-cycle adsorption unit, and completed the upgrade of the diesel fuel hydrotreatment facility aimed at producing Euro-3 and Euro-4 motor fuels. The refinery also launched an investment project that will allow shifting the generating facilities to natural gas and increasing production efficiency.

Syzran Refinery

The Syzran refinery was put into operation in 1942. It is part of the Samara group of refineries acquired by Rosneft in 2007. The plant's core production facilities include primary distillation, catalytic reforming, and fuel hydrotreatment units, catalytic and thermal cracking units, a bitumen unit, and gas fractioning facilities. A substantial part of crude feedstock is sourced from Yuganskneftegaz and Samaraneftegaz.

As of December 31, 2007, the plant's crude oil distillation capacity was 65 mln barrels (8.9 mln tonnes) per year. In 2007, the refinery's capacity utilization rate amounted to 75%. Its crude throughput equaled 48.3 mln barrels (6.61 mln tonnes), 5.3% more than in 2006, the average refining depth being 68.9%. The plant's petroleum product output totaled 6.13 mln tonnes. In 2007, the Syzran refinery processed 37.9 mln barrels (5.19 mln tonnes) of the Company's crude.

In 2007, the plant continued construction of an isomerization facility, a hydrogen production facility with a storage unit and a gas booster station, and a wet catalysis sulphuric acid facility that will allow significantly reducing environmental impacts.

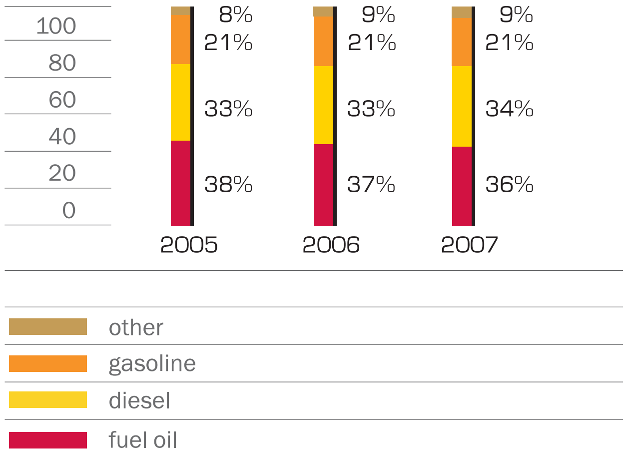
The refinery also constructed and commissioned a new Central Laboratory, which has cutting-edge equipment to enable the plant to carry out comprehensive petroleum product analysis in compliance with Russian standards.

The Syzran refinery also completed the design and engineering stage of the reforming facility upgrade aimed at commencing Euro-3 gasoline production.

Achinsk Refinery

The Achinsk refinery began operating in the 1980s, and is the only producer of petroleum products in the Krasnoyarsk region. The refinery was acquired by Rosneft in 2007. The plant's core processes include primary distillation, catalytic reforming, hydrotreatment of jet and diesel fuels, tar production, and gas fractioning facilities. A substantial part of crude feedstock comes from West Siberia.

Structure of petroleum product output at Achinsk refinery
(%)



As of December 31, 2007, the plant's crude oil distillation capacity was 48 mln barrels (6.5 mln tonnes) per year. In 2007, the refinery operated at full capacity. Its crude throughput equaled 46.9 mln barrels (6.41 mln tonnes), up 13.6% compared to 2006, the average refining depth being 62.8%. The plant's petroleum product output totaled 6.17 mln tonnes. In 2007, the Achinsk refinery processed 34.3 mln barrels (4.69 mln tonnes) of the Company's crude.

In the framework of commencing Euro-3 gasoline production, the plant commissioned a facility for low-temperature isomerization of the light gasoline fraction with a total annual capacity of 300 thousand tonnes. The refinery also continued construction of a hydrogen sulphide and sulphur prill handling facility, aimed at improving environmental performance.

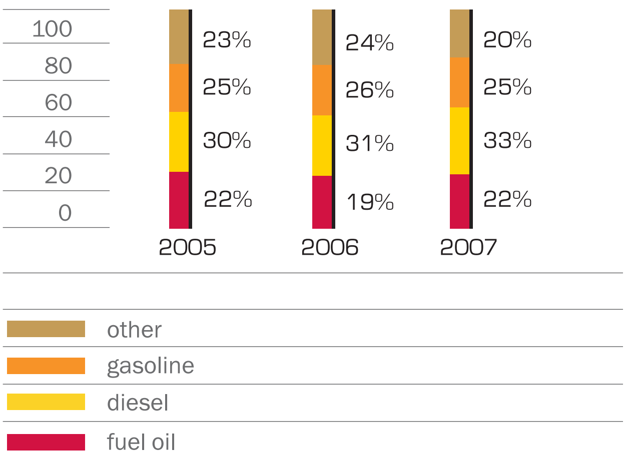
The plant also launched the construction of petroleum coke facilities that will allow it to significantly increase refining depth.

Angarsk Refinery

The Angarsk refinery was commissioned in 1955. In 2007, the plant was acquired by Rosneft. The refinery's core production facilities include primary distillation, reforming, diesel fuel hydrotreatment, and catalytic cracking units. A substantial part of feedstock comes from West Siberia.

The Angarsk refinery provides 600–700 thousand tonnes of naphtha annually as a raw material for the thermal decomposition unit of the Angarsk polymer plant. The petrochemical plant is technologically integrated with, and is a wholly owned subsidiary of, the Angarsk refinery.

Structure of petroleum product output at Angarsk refinery
(%)



As of December 31, 2007, the refinery's crude oil distillation capacity was 98 mln barrels (13.4 mln tonnes) per year. In 2007, the capacity utilization rate amounted to 69%. The refinery's crude throughput equaled 67.7 mln barrels (9.25 mln tonnes), an increase of 6.5% compared to 2006, the average refining depth being 76.0%. Petroleum product output in 2007 totaled 8.58 mln tonnes. In 2007, the Angarsk refinery processed 46.0 mln barrels (6.29 mln tonnes) of Rosneft's crude.

In the framework of commencing the production of Euro-3 gasoline and diesel fuel, the refinery completed the upgrade of a hydrocracking facility, a diesel fuel hydrotreatment facility, and the facility for hydrotreatment of catalytically cracked gasoline. In addition, the oils blending unit was upgraded, which allowed significantly improving production efficiency.

In 2007, the company also continued construction of isomerization facilities that will enable Euro-4 gasoline production.

Marketing

Rosneft is focused on maximizing the efficiency of oil and petroleum product supplies. To accomplish this strategic objective, the Company has been implementing a comprehensive program aimed at optimizing logistics and expanding its marketing infrastructure.

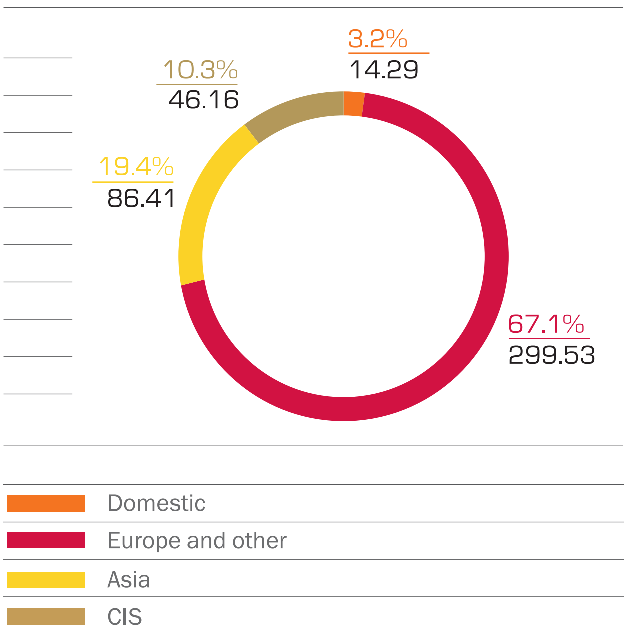
Rosneft performs ongoing market monitoring that ensures timely responding to price changes in the domestic and international markets. Efficient use of proprietary marine terminals and transshipment facilities also significantly contributes to the Company's export profitability.

Rosneft's strong network of petroleum product suppliers and filling stations allows optimizing product flows, substantially increasing wholesale and retail volumes, and, consequently, capturing additional margins.

Sales of Crude Oil

Crude oil produced by Rosneft is sold in Russia and export markets (including CIS) as well as used as feedstock for the Company's refineries or processed at third-party refineries under tolling arrangements. To maximize netbacks, Rosneft has implemented a proprietary control system (Spider) that monitors the volumes of crude oil and petroleum products delivered and calculates netbacks for each possible route.

Crude oil sales
(mln barrels)



In 2007, delivering crude oil to Russian refineries was the most profitable supply direction due to very high refining margins. Rosneft delivered 294 mln barrels of company-owned and purchased crude oil to its refineries (both previously-owned and newly acquired from Yukos), an increase of 67.5% over 2006. Rosneft also sold 14.3 mln barrels of crude oil domestically, compared to 6.8 mln barrels in 2006. The considerable growth in domestic sales was due to the acquisition of new major upstream assets. Rosneft aims to minimize domestic sales of crude oil as the corresponding netbacks are usually lower than export netbacks.

In 2007, exporting crude oil was the second most profitable supply direction. Rosneft's subsidiaries exported 432 mln barrels of crude oil and gas condensate (including crude oil purchased from affiliates and third parties):

- 300 mln barrels (69.3%) were delivered to Western and Central Europe
- 86 mln barrels (20.0%) were delivered to the Asia-Pacific region
- 46 mln barrels (10.7%) were delivered to CIS countries

China remained the largest importer, purchasing 65 mln barrels of crude oil. Overall, China accounted for 15.1% of the Company's oil and gas condensate exports. The majority of crude oil was exported via Transneft's facilities (approximately 70% of total exports), particularly via its pipeline network and ports, such as Primorsk and Novorossiysk.

The Company's crude oil export facilities include a transshipment terminal in Arkhangelsk, which handles crude oil produced in Timan-Pechora, and the De-Kastri hub in the Russian Far East, which enables the Company to export Sakhalin-1 crude oil.

De-Kastri

The De-Kastri oil loading hub in the Khabarovsk region is primarily designed for crude oil exports to Pacific Rim customers. The hub consists of two oil loading terminals.

The first terminal, with a capacity of approximately 15 mln barrels per year, is operated by Sakhalinmorneftegaz, a wholly owned subsidiary of Rosneft that produces crude oil on Sakhalin Island. In early 2007, exports via this terminal were suspended as Sakhalinmorneftegaz crude oil was redirected to the Komsomolsk refinery due to economic reasons. Rosneft will be able to reopen the terminal at any time if necessary.

The second terminal serves as the main recipient of crude oil produced by Sakhalin-1, and is owned by the project consortium, where Rosneft holds a 20% stake. The terminal's capacity is approximately 90 mln barrels per year. In 2007, as Sakhalin-1 reached peak production, the terminal operated at full capacity and exported approximately 18 mln barrels of the Company's crude oil.

Today, De-Kastri is a major hub ensuring efficient crude exports from Rosneft's production facilities in the Far East to the increasingly lucrative Asian market. Its capacity is expected to grow further as new off-shore projects involving the Company are launched.

Arkhangelsk Terminal

The Arkhangelsk oil loading terminal, located in northwestern Russia, is a major transit point for exporting crude oil produced at Rosneft's Severnaya Neft fields in Timan-Pechora to key European markets. Crude oil is first transported from Severnaya Neft's fields via the Transneft pipelines, and is then reloaded at the Privodino rail junction, located approximately halfway between Severnaya Neft's fields and the western border of Russia, for rail shipment to the Arkhangelsk terminal.

The Arkhangelsk terminal enables Rosneft to overcome certain capacity constraints of the Transneft pipeline system in the Russian Northwest. Crude oil is delivered by shuttle tankers from the Arkhangelsk terminal to the Belokamenka floating storage facility for further shipment to European or US markets. The Belokamenka terminal, with a transshipment capacity of approximately 88 mln barrels per year, is permanently anchored in the ice-free Kola Bay near Murmansk. In 2007, Rosneft exported about 18 mln barrels of own crude oil through Belokamenka. This transport chain compensates for the absence of deep-water berths in the region's ports, which are unable to accommodate supertankers.

Caspian Pipeline Consortium

The Caspian Pipeline Consortium (CPC) was established in 1992 to build a pipeline to transport Kazakh oil through Russia. The 1,510 km-long pipeline links the Tengiz oil field in Western Kazakhstan with the port of Novorossiysk.

Rosneft participates in CPC through the joint venture of Rosneft Shell Caspian Ventures Ltd, which holds a

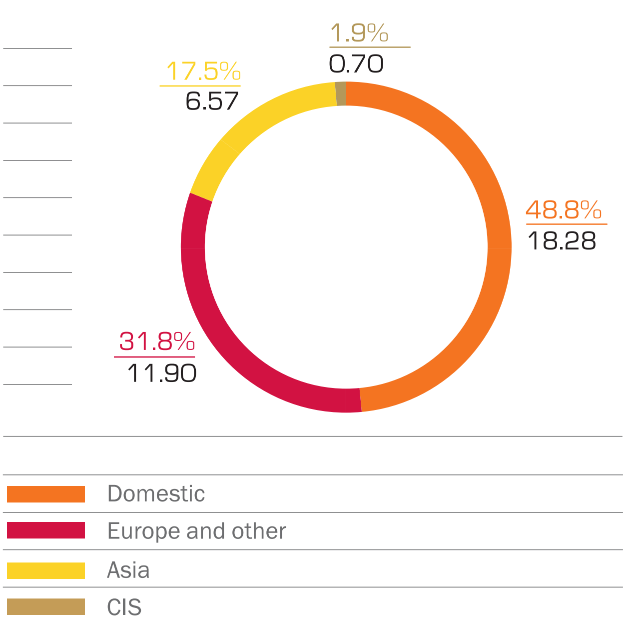
7.5% stake in the project. Rosneft owns 51% shares in the joint venture, with Shell holding the remainder.

The Company has been exporting oil and gas condensate through the CPC pipeline since December 2004. In 2007, Rosneft's exports through CPC amounted to 38 mln barrels of oil and more than 5 mln barrels of gas condensate.

Sales of Petroleum Products

Rosneft operates an extensive infrastructure for petroleum product sales, distribution, and export. In 2007, Rosneft sold 37.45 mln tonnes of company-owned and purchased products, 63.8% more than in 2006. The increase was mainly due to the acquisition of new major upstream and downstream assets.

Petroleum product sales
(mln t)



Export Sales

Export accounted for 51.2% of Rosneft's total petroleum product sales volumes in 2007. The Company exports a wide range of petroleum products, primarily diesel, fuel oil, and gasoline. Rosneft's petroleum product exports totaled 19.17 mln tonnes, of which 0.70 mln tonnes (3.7%) were sold to the CIS and 18.47 mln tonnes (96.3%) to global markets.

Rosneft enjoys significant competitive advantages over other Russian oil companies as its two major refineries are located in close proximity to export markets: the Tuapse refinery is on the Black Sea coast, and the Komsomolsk refinery is near Russia's Pacific coast in the Far East.

The Company also has its own transshipment facilities in Tuapse and Nakhodka, which allow exporting petroleum products almost directly from production areas.

Nakhodka Terminal

The Nakhodka terminal in the Primorsky region is the primary asset of Nakhodkanefteprodukt and a major terminal in the Russian Far East. The Nakhodka terminal is used to export petroleum products to Rosneft's Pacific Rim customers. The terminal's current annual transshipment capacity is approximately 7 mln tonnes per year. In 2007, the Nakhodka terminal handled 4.7 mln tonnes of Rosneft's petroleum products, which makes up about 25% of the Company's total petroleum product exports.

As part of its general development strategy, Rosneft is currently upgrading Nakhodkanefteprodukt facilities to meet the growing demand for petroleum products in the Pacific Rim region.

Tuapse Terminal

The Tuapse terminal (Krasnodar region) is located near Rosneft's Tuapse refinery on the Black Sea coast. The terminal has an annual capacity of 10.2 mln tonnes, and is operated by the Company's subsidiary Rosneft-Tuapsenefteprodukt. The Tuapse terminal is Rosneft's primary asset to export petroleum products from Southern Russia via the Russian Black Sea.

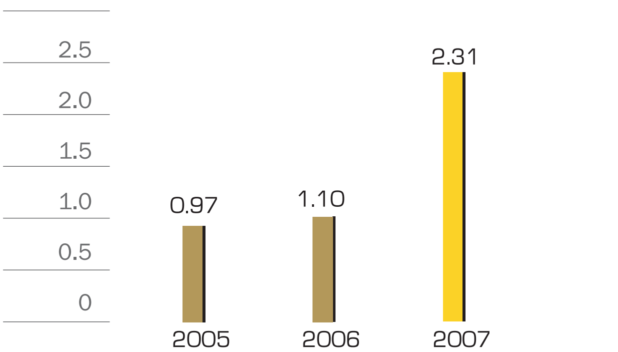
In 2007, 6.9 mln tonnes of Rosneft's petroleum products were exported through the Tuapse terminal (36% of Rosneft's total petroleum product exports).

As part of its general development strategy, Rosneft is implementing a comprehensive upgrade program at the Tuapse terminal that will increase its capacity to 17 mln tonnes a year by 2011. As a result, the Company will be able to handle all deliveries from the Tuapse refinery, whose capacity will also substantially increase when the plant's upgrade is completed. In 2007, construction of a new deep water pier was started as part of this upgrade program.

Domestic Sales

Rosneft has developed a comprehensive infrastructure to efficiently sell petroleum products in the domestic

Retail sales of petroleum products
(mln tonnes)



market. The Company is widely engaged in the wholesale, retail, storage, transportation, and transshipment of petroleum products.

In 2007, Rosneft sold 18.28 mln tonnes of petroleum products in the domestic market, an increase of 91.8% compared to 2006, which is mainly attributable to the acquisition of new assets.

The Company sells its petroleum products in Russia to both wholesale and retail customers. Wholesale purchasers of the Company's petroleum products are major end customers and independent distributors, public sector organizations, including the Russian Ministry of Defense, housing and utility companies, as well as agricultural enterprises. Main petroleum products supplied to the Company's wholesale customers include heating oil, diesel, and jet fuel. In 2007, Rosneft's domestic wholesale volumes amounted to 15.97 mln tonnes, compared to 8.43 mln tonnes in 2006.

The Company operates a broad network of proprietary, leased, and franchised filling stations. The average breakdown of Rosneft's retail sales is 60–65% of gasoline and 35–40% of diesel fuel. In 2007, the Company sold 2.31 mln tonnes of petroleum products through its retail network, more than a twofold increase compared to 2006.

During 2007, Rosneft substantially expanded its marketing network. In March–June 2007, the Company acquired new retail and storage assets in 23 regions of the Russian Federation, thus adding another 1,078 filling stations, 559 stores with an aggregate sales area of 29,100 sq. m, and 148 tank farms. Rosneft successfully integrated the newly acquired retail assets into its operating structure and started a rebranding campaign for these filling stations, which is planned to be completed by the end of 2008.

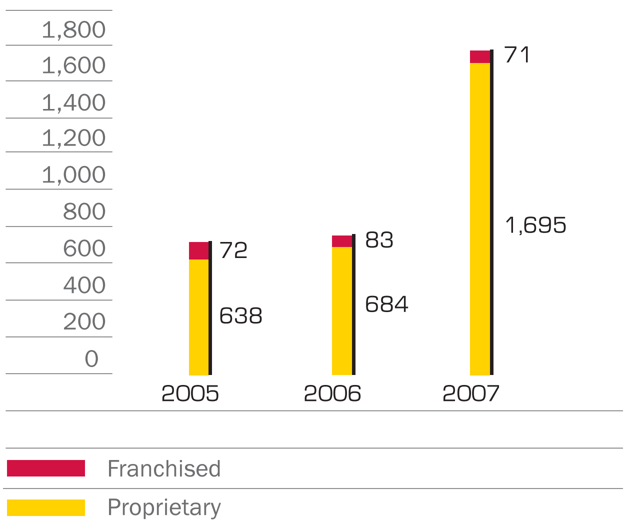
As of year-end 2007, the Company's retail network covered 36 regions of the Russian Federation, from Murmansk in the North to the North Caucasus in the South, and from Bryansk in the West to Sakhalin Island in the Russian Far East. Rosneft's marketing subsidiaries owned 155 tank farms with a total capacity of 3,020 thousand cu. m. The Company's retail network included 1,695 proprietary and leased filling stations, and 71 franchised filling stations operating under the Rosneft brand.

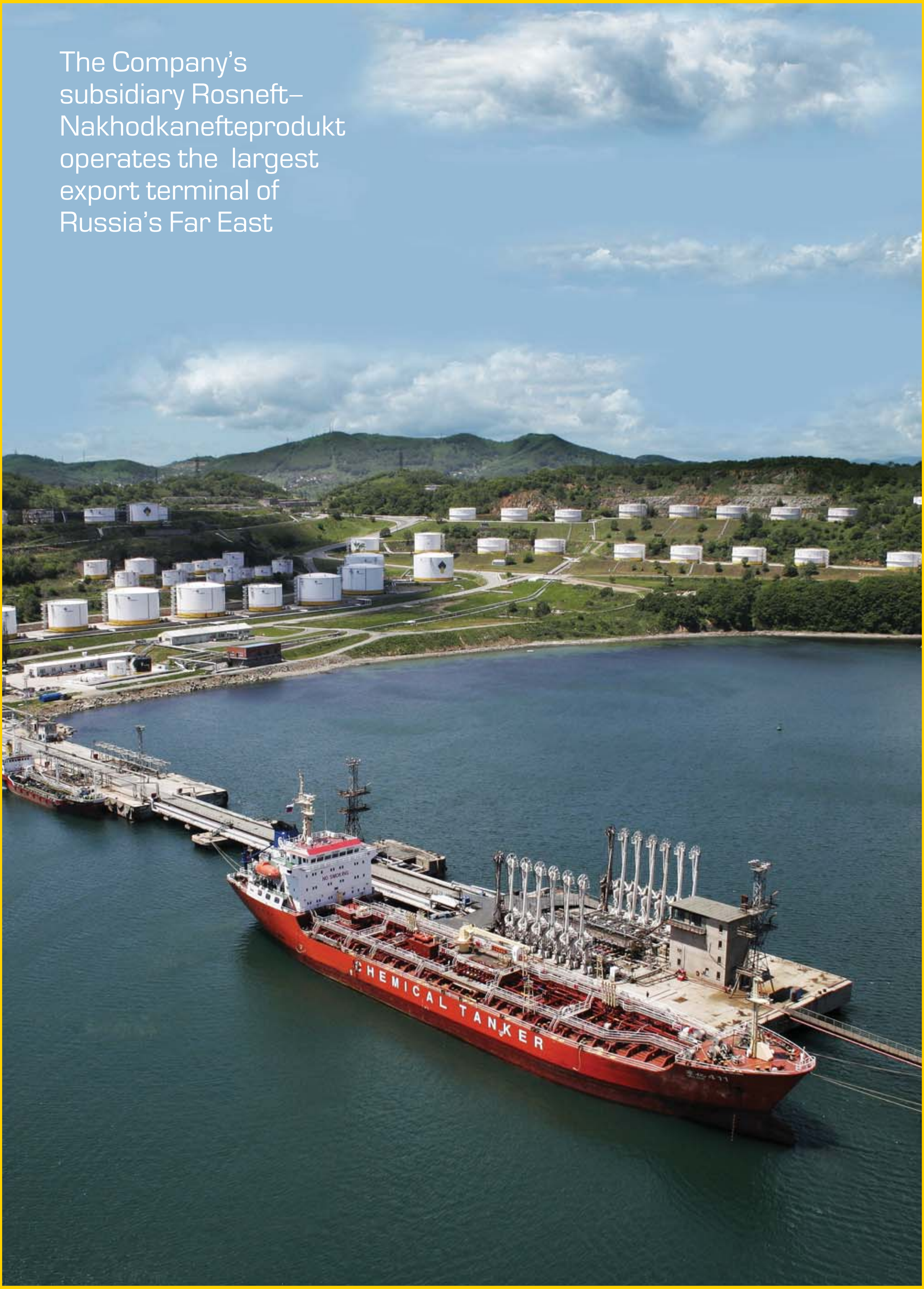
During 2007, Rosneft considerably strengthened its presence in the rapidly developing strategic markets of Moscow and St. Petersburg. As of year-end 2007, the Company owned 113 and 10 filling stations in Moscow and St. Petersburg, respectively.

Rosneft constantly strives to improve and broaden value-added services provided at its filling stations, such as fast food outlets, convenience stores, kiosks, and car washes. As of December 31, 2007, the Company's proprietary and leased filling stations operated 124 car washes, 732 stores, and 70 cafes. 128 proprietary and leased stations had garages for minor repairs and servicing of motor vehicles.

Rosneft's strategy envisages continuing development of the filling station network in areas close to company-owned refineries and tank farms, as well as in the fast-growing regions of Moscow and St. Petersburg. Such areas include the Khabarovsk region, the Primorsky region, Sakhalin Island, the Chita region, and the Krasnoyarsk region in the Far East, and the Krasnodar and Stavropol regions in the South. In European Russia, a major expansion is planned in the Samara region. To optimize its retail portfolio, Rosneft plans to dispose of underperforming filling stations and upgrade those that can potentially increase daily throughputs.

Rosneft's fleet of filling stations
(units, as of period end)




The Company's subsidiary Rosneft–Nakhodkanefteprodukt operates the largest export terminal of Russia's Far East
CHEMICAL TANKER

Bunkering Business

In 2007, Rosneft launched a large-scale program to develop bunkering operations. The Company's conveniently located refineries and modern transshipment infrastructure ensure environmentally safe year-round shipments and efficient sales of bunker fuel at the largest ports of the Far East, the Black Sea, and the Northwest region, as well as on major domestic sea routes.

In November 2007, Rosneft started shipping bunker fuel to bunkering centers of the Primorsky region, the White Sea, and the Barents Sea.

In 2007, the Company's export and domestic supplies of bunker fuel totaled 3.4 and 0.6 thousand tonnes, respectively. In the near future, Rosneft will significantly expand its bunkering operations to cover the ports of Tuapse, St. Petersburg, Primorsk, Ust-Luga, Syzran, Rostov, Samara, Yaroslavl, Nizhny Novgorod, Kazan, Chistopol, Kamskoye Ustye, Volgograd, and Azov.

Key Financial Results

In 2007, the Company demonstrated excellent financial results, mainly due to the acquisition of new assets and a favourable price environment. Revenues increased to USD 49.2 bln, up 48.7% year-on-year. Operating income amounted to USD 10.7 bln (91.3% increase from 2006). EBITDA, adjusted for accretion expense and interest accrued in relation to Yuganskneftegaz tax liabilities, was USD 14.5 bln, 99.1% higher year-on-year. Net income amounted to USD 12.9 bln, whereas net income adjusted for extraordinary items reached USD 6.5 bln, an increase of 84.2% compared to USD 3.5 bln in 2006. Return on average capital employed (ROACE) in the review period increased to 18.6% from 18.1% in the previous year. Return on equity increased to 25.6% from 23.0% in 2006.

Analysis of the Company's 2007 operating results is presented below. The Company's 2007 consolidated financial statements audited by Ernst&Young LLC, one of the Big Four firms, are included in appendixes to this Report.

Revenues

Rosneft's revenues, USD mln

	2007	2006	% change
Crude oil			
Export, excluding CIS	26,822	21,468	24.9%
Europe and other directions	20,567	16,323	26.0%
Asia	6,255	5,145	21.6%
CIS	2,220	1,620	37.0%
Domestic	521	214	143.5%
Gas	339	197	72.1%
Total oil and gas	29,902	23,499	27.2%
Petroleum products			
Export, excluding CIS	9,364	5,093	83.9%
Europe and other directions	5,875	3,152	86.4%
Asia	3,489	1,941	79.8%
CIS	338	202	67.3%
Domestic	8,672	3,953	119.4%
Wholesale	6,944	3,239	114.4%
Retail	1,728	714	142.0%
Refining fees	44	2	2,100.0%
Petrochemical products	113	-	100.0%
Total petroleum and petrochemical products and refining fees	18,531	9,250	100.3%
Support services and other revenues	783	350	123.7%
Total revenues	49,216	33,099	48.7%

In 2007, Rosneft's total revenues were USD 49,216 mln, a 48.7% increase from USD 33,099 mln in 2006. Revenues from the sale of crude oil and gas grew 27.2%, and revenues from the sale of petroleum products increased by 100.3%. 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 resulted primarily from a 23.7% increase in crude oil production by subsidiaries and a 69.4% increase in petroleum product output following the acquisition of new upstream and downstream assets.

Crude Oil and Gas Sales

Revenues from crude oil exports to non-CIS countries were USD 26,822 mln compared to USD 21,468 mln in 2006, an increase of USD 5,354 mln, or 24.9%. Excluding USD 45 mln attributable to Samaraneftegaz, the growth resulted from a 15.8% increase in average prices, which had a positive effect of USD 3,649 mln, and a 7.7% increase in sales volumes, which contributed another USD 1,660 mln. The price increase was attributable to the overall growth in global prices; in particular, the average price of Urals crude oil in the Mediterranean increased by 13.3%. Sales volumes grew both in Europe and Asia, mainly as a result of an increase in crude oil output.

Revenues from crude oil sales to the CIS were USD 2,220 mln compared to USD 1,620 mln in 2006, an increase of USD 600 mln, or 37.0%. A 29.2% price increase that contributed USD 502 mln to the revenues was accompanied by a 6.1% growth in volumes, which had a positive effect of USD 98 mln.

Domestic crude oil sales increased from USD 307 mln in 2006 to USD 521 mln in 2007. This growth resulted from sales by Tomskneft and Samaraneftegaz, which accounted for USD 346 mln (including USD 254 mln by Tomskneft and USD 92 mln by Samaraneftegaz) of revenues in 2007. Excluding these sales, the 33.9% decrease in volumes, which had a negative effect of USD 73 mln, was partially offset by a 23.8% increase in average prices, with a positive effect of USD 34 mln.

Revenues from gas sales reached USD 339 mln in 2007 (compared to USD 197 mln in 2006), including USD 4 mln contributed by the new subsidiaries recently acquired from Yukos, an increase of USD 142 mln, or 72.1%. Excluding the sales of the above subsidiaries, the growth was attributable to a 45.1% price rise, which had a positive effect of USD 104 mln, and a 17.1% growth in sales volume from 9.57 bln cu. m to 11.45 bln cu. m, with a positive impact of USD 34 mln.

Sales of Petroleum Products and Petrochemicals

Revenue from petroleum product exports to non-CIS countries was USD 9,364 mln in 2007 as compared to USD 5,093 mln in 2006, an increase of USD 4,271 mln, or 83.9%. Excluding USD 50 mln attributable to Yukos-M Trading House, the growth resulted mainly from a 44.9% increase in sales volume, which had a positive effect of USD 2,285 mln, as well as a 26.2% rise in average prices, which resulted in revenues increase by another USD 1,936 mln. 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 global price growth; in particular, the average price for fuel oil Mediterranean rose by 18.4%.

Revenues from petroleum product sales to the CIS were USD 338 mln compared to USD 202 mln in 2006. This increase resulted primarily from a 62.6% price growth, which contributed USD 130 mln, and a 2.9% increase in volumes, which had a positive impact of USD 6 mln.

Revenues from domestic sales of petroleum products were USD 8,672 mln in 2007, including USD 1,540 mln attributable to the marketing subsidiaries recently acquired from Yukos, compared to USD 3,953 mln in 2006, an increase of USD 4,719 mln, or 119.4%. Excluding sales by the above subsidiaries, the growth in revenue from domestic sales of petroleum products resulted from a 66.5% increase in sales volume, which had a positive impact USD 2,627 mln. The volume growth was mainly attributable to an increase in crude oil production (including production of Tomskneft and Samaraneftegaz from the date of purchase in May 2007) and the respective increase in refining volumes. The volume growth was accompanied by a 8.4% increase in average prices, with a positive effect of USD 552 mln. The increase in sales price is mainly explained by the growth in world prices of petroleum products.

In early May 2007, after the purchase of petrochemical facilities previously owned by Yukos, Rosneft started to sell petrochemical products. In Q4 2007, the Company's revenue from sales of petrochemical products was USD 113 mln.

Other Sales

Rosneft provided refining services to Yukos-M Trading House prior to its acquisition by the Company in late June 2007. The revenue from these services in 2007 was USD 44 mln, compared to USD 2 mln in 2006.

In 2007, support services and other revenues were USD 783 mln, including USD 337 mln contributed by subsidiaries recently acquired from Yukos, 123.7% higher than in 2006 (USD 350 mln). Excluding revenues of the above subsidiaries, the growth was mainly attributable to an increase in the volume and value of drilling and rental services as well as sales of materials.

Costs and Expenses

Rosneft's costs and expenses, USD mln

	2007	2006	% change
Production and operating expenses	3,870	2,197	76.2%
Cost of purchased oil, gas, petroleum products and refining costs	1,610	1,320	22.0%
General and administrative expenses	1,341	757	77.1%
Pipeline tariffs and other transportation costs	4,226	3,226	31.0%
Exploration expenses	162	193	(16.1)%
Depreciation, depletion and amortization	3,286	1,638	100.6%
Accretion expense[1]	78	34	129.4%
Taxes other than income tax	10,890	6,990	55.8%
Export customs duty	13,032	11,140	17.0%
Total costs and expenses	38,495	27,495	40.0%

[1] Unwinding of discount related to asset retirement obligations.

Costs and expenses were USD 38,495 mln in 2007, 40.0% higher than USD 27,495 mln in 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 amortization, pipeline tariffs and transportation costs, costs of purchased crude oil, and real rouble appreciation against the US dollar of 18.9%. Costs and expenses accounted for 78.2% and 83.1% of Rosneft's total revenues in 2007 and 2006, respectively. Excluding export customs duties and taxes other than income tax, costs and expenses accounted for 29.6% and 28.3% of Rosneft's total revenues in the respective periods.

Production and Operating Expenses

In 2007, production and operating expenses were USD 3,870 mln compared to USD 2,197 mln in 2006, (76.2% increase). The main contributors, excluding real appreciation of the rouble against the US dollar of 18.9%, were USD 1,548 mln of operating expenses attributable to the subsidiaries recently acquired from Yukos, higher production volumes, growing headcount, an increase in salaries, higher cost of materials used in the downstream segment, and a rise in well workover expenses in 2007 as compared to 2006.

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 items of production and exploration business units and subsidiaries.

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

Of the total production and operating expenses, the upstream and downstream segments accounted for USD 2,482 mln and USD 1,020 mln, respectively, in 2007, and USD 1,632 mln and USD 353 mln, respectively, in 2006. Other operating expenses were USD 368 mln in 2007 and USD 212 mln in 2006.

Upstream production and operating expenses were USD 2,482 mln in 2007, or USD 3.48 per barrel of crude oil produced and USD 3.08 per barrel of oil equivalent produced. In 2006, these expenses were USD 1,632 mln, or USD 2.83 per barrel of crude oil produced and USD 2.49 per barrel of oil equivalent produced. Upstream production and operating expenses in 2007, excluding Sakhalin-1 costs and costs relating to Tomskneft and Samaraneftegaz, were USD 2.94 per barrel of crude oil produced and USD 2.58 per barrel of oil equivalent produced. The growth in upstream production and operating expenses resulted from an increase in the volume and cost of geotechnical operations, growing electricity tariffs, and the real rouble appreciation against US dollar.

Downstream production and operating expenses grew from USD 353 mln to USD 1,020 mln mainly due to the acquisition of five new refineries and the growth in electricity and payroll expenses.

Cost of Purchased Oil, Gas, Petroleum Products and Refining

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

In 2007, the cost of purchased crude oil, petroleum products and refining was USD 1,610 mln, a 22.0% increase from USD 1,320 mln in 2006, which was mainly explained by the growth in volumes and purchase price of crude oil.

In 2007, crude oil purchases totalled 29.54 mln barrels (USD 934 mln) compared to 18.36 mln barrels (USD 448 mln) in 2006. After the acquisition of new refining assets from Yukos in May 2007, the Company purchased additional volumes of oil to fully utilize the capacity of the acquired refineries. For example, in Q4 2007, the Company purchased oil from Surgutneftegaz, Udmurtneft and NAFTA-Sib & Co in the total amount of USD 262 mln (6.38 mln barrels). In September 2006, the Company ceased oil purchases from Sakhalin-1 since the parties to the PSA commenced exports via the Consortium's own terminal in De-Kastri which started operations in Q4 2006. This decrease partially offset the growth in crude oil procurement for the newly acquired refineries.

In certain circumstances, it is more economical for Rosneft to purchase petroleum products from third parties which it supplies, together with own petroleum products, to its marketing subsidiaries. The volume of petroleum products purchased from third parties was 0.88 mln tonnes (USD 442 mln) in 2007 and 0.93 mln tonnes (USD 366 mln) in 2006.

Following the acquisition of Yukos refineries, Rosneft no longer pays refinery fees to Yukos. These refinery fees were higher than the refining costs of the Tuapse and Komsomolsk refineries, partly because the latter exclude depreciation, which is reported under depreciation, depletion and amortization, and taxes other than income tax, while these were included in the refinery fees paid to the former Yukos refineries. As a result of the acquisition of the above refineries in May 2007, refinery fees decreased from USD 506 mln in 2006 to USD 198 mln in 2007.

General and Administrative Expenses

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

General and administrative expenses were USD 1,341 mln in 2007, 77.1% higher compared to USD 757 mln in 2006. This increase was mainly due to the general and administrative expenses of subsidiaries recently acquired from Yukos of USD 308 mln, the growth in salaries and bonuses as a result of increased headcount, higher volume of consulting services, and the real rouble appreciation against the US dollar.

Pipeline Tariffs and Transportation Costs

Pipeline tariffs and transportation costs include costs of transporting crude oil for refining to own and third-party refineries and to end customers, as well as 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, customs costs and demurrage.

Pipeline tariffs and other transportation costs grew to USD 4,226 mln in 2007 from USD 3,226 mln in 2006. This 31.0% increase was mainly due to higher volumes of oil and petroleum products transported by pipeline and railway as well as the increase in tariffs of natural monopolies.

Rosneft's crude oil export pipeline cost per tonne increased by 13.7% in 2007 compared to 2006. This change was due to the use of alternative transport routes resulting from the acquisition of new production and refining assets. Crude oil domestic pipeline tariffs paid by Rosneft for transportation to refineries decreased by 7.9% in 2007 compared to 2006 due to shorter transportation distance from production units to refining subsidiaries in the Samara region recently acquired from Yukos.

In 2007, Rosneft transported 281.7 mln barrels (38.5 mln tonnes) of crude oil via Transneft to domestic refineries and approximately 284.4 mln barrels (38.9 mln tonnes) for export via Transneft and the CPC, compared to approximately 165.2 mln barrels (22.58 mln tonnes) of deliveries to domestic refineries and 269.5 mln barrels (36.84 mln tonnes) of exports in 2006.

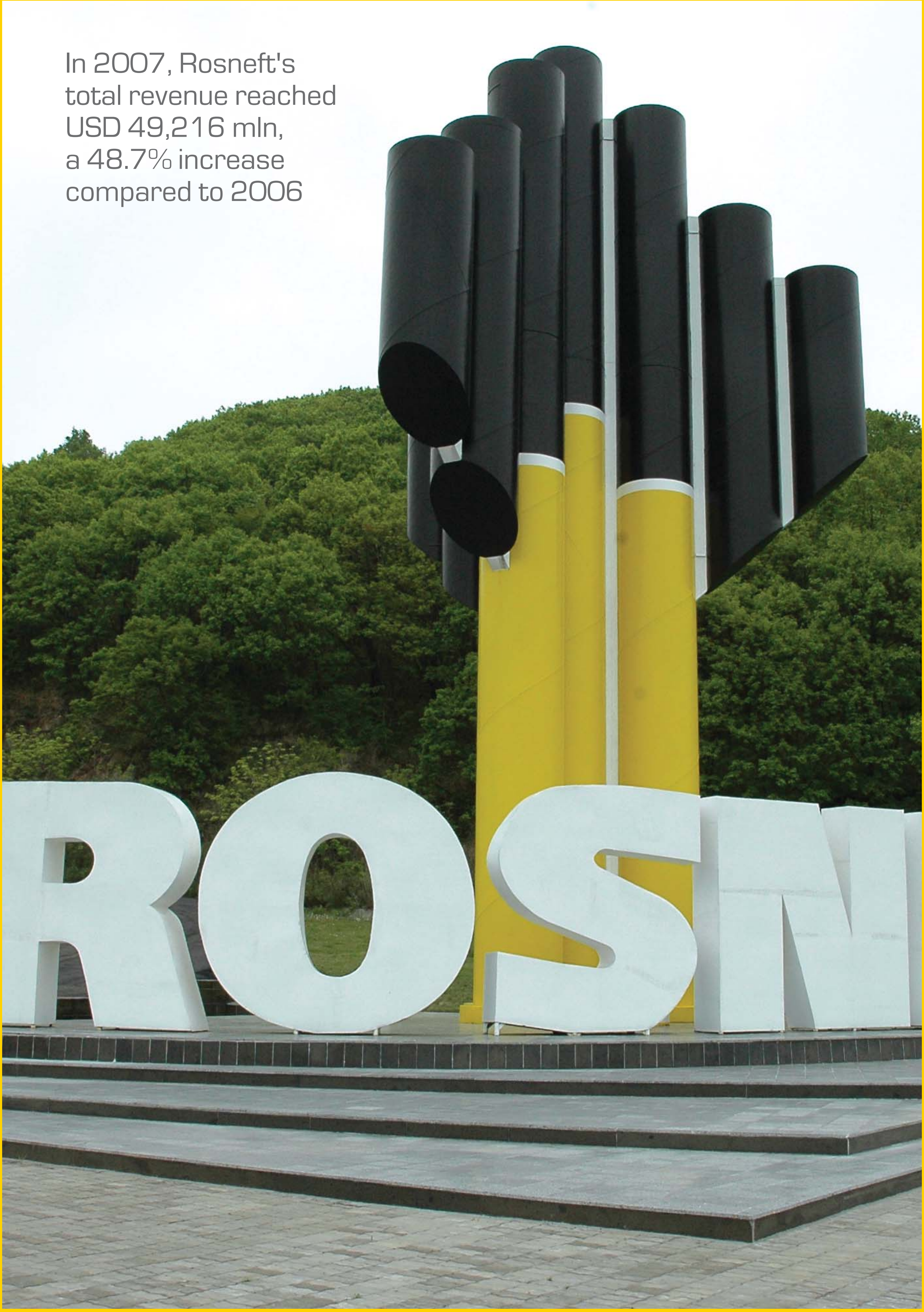
Rosneft's cost per tonne of exported petroleum products transported via Transnefteprodukt increased by 227.4% in 2007 compared to 2006, due to the use of new logistic schemes and transportation routes (Ventspils and Bryansk-Ventspils), growth in Transnefteprodukt's tariffs, and the real rouble appreciation against the US dollar.

In 2007, the Company exported 12.61 mln tonnes of petroleum products, including 10.25 mln tonnes by railroad, 1.50 mln tonnes via pipelines, and 0.86 mln tonnes using combined transport. In 2006, the Company transported 8.12 mln tonnes of petroleum products, including 6.56 mln tonnes by railroad, 0.23 mln tonnes via pipelines, and 1.33 mln tonnes using combined transport.

Exploration Expenses

Exploration expenses mainly represent items relating to exploration drilling, seismic and other geological and geophysical costs. Exploration drilling costs are gener-

In 2007, Rosneft's net income adjusted for extraordinary items was USD 6.5 bln, an increase of 84.2% compared to 2006



In 2007, Rosneft's total revenue reached USD 49,216 mln, a 48.7% increase compared to 2006 ally capitalized if commercial oil and gas reserves are discovered, or expensed in the current period in the event of unsuccessful exploration results.

In 2007, exploration expenses decreased by USD 31 mln, or 16.1%, to USD 162 mln from USD 193 mln in 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 amounted to USD 36 mln in 2007.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization includes depreciation of oil and gas production assets as well as of other production and corporate assets.

Depreciation, depletion and amortization was USD 3,286 mln in 2007 compared to USD 1,638 mln in 2006. The 100.6% increase was mainly due to a step-up in the fixed asset value as a result of the Share Swap in Q4 2006, increased capital expenditures, and acquisition of new assets, which resulted in higher book value of fixed assets in 2007 compared to 2006. This increase also resulted from the growth in average depletion rates for oil and gas properties to 6.8% in 2007 from 6.1% in 2006, affected by Sakhalin PSA and revaluation of oil and gas reserves by DeGolyer & MacNaughton. Depreciation, depletion and amortization of all assets recently acquired from Yukos was USD 536 mln in 2007.

Taxes Other than Income Tax

Taxes other than income tax include mineral extraction tax, excise tax (mainly with respect to petroleum products), unified social tax, property tax, and other taxes.

Rosneft's taxes other than income tax, USD mln

	2007	2006	% change
Mineral extraction tax	9,323	6,342	47.0%
Excise tax	861	329	161.7%
Social security	291	154	88.3%
Property tax	186	107	73.8%
Land tax	15	7	100.0%
Transportation tax	4	2	100.0%
Other taxes and payments	212	49	332.7%
Total taxes other than income tax	10,890	6,990	55.8%

Taxes other than income tax increased by 55.8% in 2007 to USD 10,890 mln, compared to USD 6,990 mln in 2006. The increase was mainly due to the mineral extraction tax growing as a result of rising crude oil prices. The growth was also driven by the taxes other than income tax of USD 1,805 mln attributable to the subsidiaries recently acquired from Yukos.

In 2007, the total amount of interest and penalties accrued in respect of Yuganskneftegaz back taxes comprised penalties of USD 438 mln, including USD 67 mln for corporate income tax and USD 371 mln for taxes other than income tax. Penalties for taxes other than income tax in 2007 included USD 332 mln for mineral extraction tax, USD 0.1 mln for property tax, USD 0.1 mln for unified social tax, USD 0.6 mln for land tax, and USD 38.2 mln 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 USD 456 mln was due as of December 31, 2007. The total amount of interest and penalties payable as of December 31, 2007 with respect to tax liabilities of OJSC Yuganskneftegaz amounted to USD 1,000 mln. 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 principal amount subject to tax restructuring provisions was USD 1,336 mln.

In December 2007, by an Order of the Government of the Russian Federation, the Company's Federal tax debt of RUB 42.3 bln was restructured for a period of 5 years (through 2012 inclusive). In consolidated financial statements this debt was then classified as long-term.

In Q1 2008, the remaining regional and local tax debt in the amount of RUB 15.0 bln 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.

Rosneft's export duties, USD mln

	2007	2006	% change
Export duty for crude oil	10,754	9,763	10.2%
Export duty for petroleum products	2,278	1,377	65.4%
Total export customs duties	13,032	11,140	16.9%

The impact of export customs duty on Rosneft's margins varies from period to period depending not only on the average Urals price per barrel, 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 under US GAAP than on the amount of export customs duty determined under the formula. The export duty does not apply to oil produced by Sakhalin-1 project.

Due to rising crude oil prices in 2007 and the time lag between crude oil prices and Russian export duty for crude oil, export duty for this type of hydrocarbons decreased as a percentage of average Urals prices in 2007 compared to 2006. This fact had a positive impact on Rosneft's financial results. Export customs duties were USD 13,032 mln in 2007 compared to USD 11,140 mln in 2006. The increase resulted from a growth in exports to non-CIS countries of 7.9% for crude oil and 7.9% for petroleum products, and was also connected with the change in export customs duties as a result of rising prices. The increase was also attributable to the introduction of export duty on crude oil exported from Russia to Belarus.

Operating Income

As a result of the factors discussed above, operating income increased by 91.3% in 2007 compared to 2006. As a percentage of total revenues, operating income was 21.8% and 16.92% in 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% in 2007 and 2006, respectively.

Other Income/(Expenses)

Interest Income

Interest income increased by 58.5% to USD 214 mln in 2007 from USD 135 mln in 2006, which was mainly due to the growth in banking activities and deposits.

Interest Expense

Interest expense increased by 103.0% to USD 1,470 mln in 2007 compared to USD 724 mln in 2006. The increase is explained by the growth in total debt resulting from new borrowings used to finance the acquisitions of major upstream and downstream assets formerly owned by Yukos. During 2007, total debt increased from USD 13.8 bln to USD 27.3 bln (also see Debt Obligations).

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 USD 119 mln in 2007, compared to USD 95 mln in 2006. This increase was primarily due to the write-off of housing in Chechnya and the Russian Far East.

Gain from Yukos Oil Company Bankruptcy

In June 2007, the Company received RUB 294.3 bln (USD 11.5 bln at the CBR exchange rate as of the receipt date) as a creditor in the Yukos bankruptcy. USD 483 mln of this amount were recorded as a repayment of debt receivable acquired earlier, USD 2.0 bln as collection of accounts receivable, including accounts receivable related to the new assets, and the remaining USD 8,970 mln were recorded as income on the consolidated profit and loss statement. The Company used these proceeds to reduce its debt and to finance purchase of Yukos assets.

Other Income/(Expenses, Net)

Other expenses, net, consist principally of social expenditures.

In 2007, other expenses, net, were USD 195 mln, compared to USD 320 mln in 2006. This change was partially explained by a USD 98 mln income related to the Company receiving title to a 100% interest in Yukos-Mamontovo for no consideration. Other income of subsidiaries recently acquired from Yukos was USD 35 mln in 2007.

Foreign Exchange Losses

Foreign exchange losses were USD 409 mln in 2007 compared to USD 470 mln in 2006. The decrease in losses resulted from the impact of agreements for forward sale of US dollar-denominated revenue concluded by Rosneft in January 2007 in order to hedge currency risk.

Income Tax Expense

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 Standards.

The US GAAP effective income tax rate was 28% in 2007, and 13% in 2006, compared to a maximum rate of 24% established by the Russian tax legislation.

The most significant factors influencing the effective income tax rate in 2007 were the foreign exchange effects and the 4% local income tax exemption for certain subsidiaries.

The most significant factors influencing the effective income tax rate in 2006 were 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 USD 539 mln, and the USD 75 mln decrease in the deferred tax asset valuation allowance related to property, plant and equipment due to a change in estimates resulting from new circumstances improving the chances to realize this asset.

Income tax amounted to USD 4,906 mln in 2007 compared to USD 540 mln in 2006. Current income tax increased to USD 3,848 mln in 2007 from USD 2,385 mln in 2006, while deferred tax benefit changed from USD 1,058 mln to deferred tax expense of USD 1,845 mln, primarily due to the income tax on proceeds from Yukos bankruptcy as described above. Income tax for the subsidiaries recently acquired from Yukos was USD 206 mln in 2007, from the date of acquisition of these assets, while current income tax for these subsidiaries was USD 269 mln, and deferred income tax expense was USD 63 mln.

Minority Interest in Subsidiaries' Earnings, Net of Tax

There were significant minority interests in the Company's subsidiaries prior to October 2006, which were eliminated as a result of the Share Swap.

Minority interest in subsidiaries' earnings, net of tax, was USD 21 mln in 2007 compared to USD 92 mln in 2006, mainly as a result of the above.

Net Income

As a result of the factors discussed above, net income increased to USD 12,862 mln in 2007 from USD 3,533 mln in 2006. As a percentage of total revenues, net income was 26.1% and 10.7% in 2007 and 2006, respectively. Net income adjusted for extraordinary items reached USD 6,483 mln, a 84.2% growth compared to USD 3,520 mln in 2006.

Liquidity and Capital Resources

Cash Flows

Principal items of cash flows statement, USD mln

	2007	2006	% change
Net cash provided by operating activities	17,110	2,593	559.9%
Net cash used in investing activities	(20,095)	(6,516)	208.4%
Net cash provided by financing activities	3,440	3,225	6.7%

Net Cash Provided by Operating Activities

Net cash provided by operating activities amounted to USD 17,110 mln in 2007, resulting from an increase in net income before depreciation, depletion and amortization and cash received in the Yukos bankruptcy process, which was partially offset by the increase in working capital. Excluding cash received in the Yukos bankruptcy process, operating cash flow amounted to USD 6,103 mln.

The increase in working capital resulted from:

- An increase in accounts receivable of USD 4,935 mln due to a USD 1,937 mln increase in export VAT and a USD 2,636 mln increase in trade receivables, resulting from the growth in crude oil and petroleum product output, and high domestic and export prices; the increase was partially offset by receivables from the Yukos bankruptcy
- Increase in inventory by USD 1,021 mln resulting from the overall business growth

Net Cash Used in Investing Activities

In 2007, net cash used in investing activities was USD 20,095 mln compared to USD 6,516 mln in 2006. Net cash used in investing activities in 2007 included an outflow of USD 19,075 mln (excluding cash used for the purchase of treasury shares) used for the acquisition of Yukos assets and other assets at the auctions, and an inflow of USD 3,400 mln received as an advance payment for the sale of 50% in Tomskneft. Capital expenditures were USD 6,870 mln in 2007 and USD 4,378 mln in 2006.

Net Cash Provided by Financing Activities

In 2007, net cash provided by financing activities was USD 3,440 mln compared to USD 3,225 mln in 2006. Net cash provided by financing activities in 2007 includes an inflow of USD 22.0 bln of loans provided by a syndicate of international banks and outflows of USD 9.2 bln of loans repayment out of Yukos bankruptcy proceeds and USD 7.5 bln for purchase of treasury stock. Rosneft also repaid USD 1.5 bln of previously obtained loans using Yukos bankruptcy proceeds and other free cash flows.

Capital Expenditures

Rosneft's total capital expenditures, USD mln

	2007	2006	% change
Yuganskneftegaz	2,185	1,181	85.0%
Vankor field	1,009	469	115.1%
Purneftegaz	423	204	107.3%
Severnaya Neft	212	140	51.4%
Tomskneft	233	-	100.0%
Samaraneftegaz	115	-	100.0%
Other [1]	432	641	(32.6)%
Total upstream segment	4,609	2,635	74.9%
The Company	99	14	607.2%
Tuapse refinery	106	77	37.6%
Komsomolsk refinery	61	58	5.1%
Angarsk refinery	80	-	100.0%
Achinsk refinery	62	-	100.0%
Syzran refinery	31	-	100.0%
Novokuibyshevsk refinery	44	-	100.0%
Kuibyshev refinery	52	-	100.0%
Marketing Business Units and others [2]	458	325	40.9%
Total downstream	993	474	109.4%
Other activities	329	184	78.9%
Subtotal capital expenditures	5,931	3,293	80.1%
Net increase in construction materials	309	169	82.8%
Other former Yukos assets	540	-	100.0%
Total capital expenditures and capex acquisition	6,780	3,462	95.8%

[1] Including: Krasnodarneftegaz, Stavropolneftegaz, Sakhalin-1, Grozneftegaz, etc.

[2] Related to companies providing processing, transferring and storage services.

In 2007, Rosneft's total capital expenditures increased by 95.8%, or USD 3,318 mln, to USD 6,780 mln, compared to USD 3,462 mln in 2006. This increase was primarily driven by the upstream segment, where capital expenditures increased by 74.9%, or USD 1,974 mln, accompanied by a USD 523 mln increase in the downstream segment. The growth in the upstream segment was mainly attributable to investments in Yuganskneftegaz and the Vankor field, as well as in Tomskneft and Samaraneftegaz, which Rosneft acquired in May 2007. The growth in capital expenditures in the downstream segment was mainly attributable to the new refining assets that Rosneft acquired in May 2007 (Angarsk, Achinsk, Syzran, Kuibyshev and Novokuibyshevsk refineries). Due to the expansion of Rosneft's filling station network, capital expenditures of the marketing business units and other companies providing processing, transferring and storage services increased to USD 458 mln, or by 40.9%.

Capital expenditures for other activities increased by 78.9%, or by USD 145 mln, in 2007, compared to USD 184 mln in 2006. The increase mainly resulted from the growth in capital expenditures of Rosneft's service companies such as RN-Burenie, as well as newly acquired service companies.

Starting from Q4 2006, the Company's subsidiaries purchase construction materials and sell the materials to contractors that provide construction and drilling services at subsidiaries' wells. The balance of unused construction materials in the amount of USD 309 mln is included in the capital expenses under US GAAP due to the nature of this cash outflow.

During the Yukos bankruptcy proceedings, Rosneft purchased certain equipment and construction in progress in the Khanty-Mansiysk, Samara, and Tomsk regions for a total of USD 540 mln.

The total amount of capital investments relating to the assets recently acquired from Yukos was USD 761 mln from the date of their acquisition up to December 31, 2007, including USD 348 mln in the upstream segment (including Tomskneft capital expenses of USD 233 mln), USD 373 mln in the downstream segment, and USD 40 mln in the other segments.

In addition to capital expenditures described above, Rosneft made acquisitions and increased its shareholdings in certain other subsidiaries (see Major Acquisitions).

Debt Obligations

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

Rosneft's total loans and borrowings increased to USD 27,273 mln in 2007 from USD 13,829 mln in 2006.

In February–May 2007, Rosneft drew USD 24.5 bln of bridge loans to participate in auctions for the sales of Yukos assets and other purposes. In May 2007, part of the received loans in the amount of USD 2.5 bln was refinanced mainly by loans received from a syndicate of international banks in the total amount of USD 2 bln, 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 the loan's increase to USD 3.1 bln in July 2007.

To repay the bridge loans, Rosneft used part of its net cash provided by operating activities and USD 9.2 bln from the Yukos bankruptcy proceeds. The Company also received new borrowings to refinance the bridge loans. As of December 31, 2007, the outstanding amount of the bridge loans was USD 11.7 bln.

Rosneft's strategy has been to finance its growth primarily with long-term borrowings, which are mainly denominated in US dollars. Rosneft's long-term borrowings (excluding the current portion of long-term debt) increased to USD 11,723 mln in 2007 from USD 7,402 mln in 2006. The weighted average interest rate 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%) in the respective periods.

Long-term loans are generally secured by oil export contracts. Under the terms of such contracts, if the Company fails to timely repay debt, 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 December 31, 2007 and December 31, 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 December 31, 2007 and December 31, 2006, pledged oil exports as a percentage of total crude oil exports constituted 37.1% and 31.7%, respectively.

Rosneft's short-term borrowings (including the current portion of long-term debt) increased to USD 15,550 mln in 2007 from USD 6,427 mln in 2006. US dollar-denominated short-term loans are represented by loans received from a syndicate of international banks with interest at LIBOR plus 0.45% per annum, as well as inter-bank loans entered into by the Company's subsidiary bank VBRR with interest at LIBOR plus 1.15%–1.2% per annum. In June–August 2007, the Company received one-year foreign currency loans from several Russian state-controlled banks in the total amount of USD 1,580 mln, 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 and bearing interest ranging from 4.5% to 9.5% per annum.

By December 2007, the Company acquired USD 2,246 mln of long-term and short-term debt in the course of purchasing Yukos assets at bankruptcy auctions started in May 2007 and from other winners of such auctions. A portion of the above amount was eliminated on consolidation, leaving USD 1,795 mln on Rosneft's balance sheet as of December 31, 2007. The acquired debt reflected on the balance sheet as of December 31, 2007 included promissory notes (face value and interest) in the amount of USD 1,616 mln (USD 1,016 mln – long-term promissory notes and USD 600 mln – short-term promissory notes).

As of December 31, 2007, total short-term promissory notes included approximately USD 908 mln 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 Consolidated 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 Yuganskneftegaz acquisition in December 2004, and debt incurred and assets and liabilities a growing thereof, including consolidated contingent liabilities, the Company failed to comply 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 included new provisions 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' tax liabilities by January 3, 2009 (extended from January 3, 2008 by waivers obtained in December 2007)
- pay any arbitration award relating to the Moravel litigation or the Yukos Capital S.a 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 December 31, 2007, following the amendments effected on January 1, 2007, the Company complied with all restrictive financial and other covenants contained within its loan agreements.

In November 2007, Rosneft obtained waivers from its principal lenders, effective through January 3, 2009, in respect of the non-satisfaction by Samaraneftegaz of two arbitral awards of the ICC International Court of Arbitration in favour of Yukos Capital S.a r.l. Rosneft also obtained in November 2007 waivers in respect of completion of the sale of a 50% stake in Tomskneft.

The following table shows the scheduled maturities of Rosneft's long-term debt outstanding as of December 31, 2007 (excluding Tomskneft's debt accounted for using the equity method from December 27, 2007):

	(USD mln)
2008	2,920
2009	4,939
2010	3,577
2011	1,713
2012 and after	1,494
Total long-term debt	14,643

In February 2008, the Company raised a syndicated loan of USD 3.0 bln that was provided by a group of international banks at an interest rate of LIBOR plus 0.95%. The loan matures in 5 years and is secured by oil export contracts. The funds were used for refinancing of short-term loans due.

In March 2008, the Company repaid a portion of the bridge financing in the amount of USD 2.23 bln, and during Q1 2008 the Company also made scheduled repayments of the bank loans in the amount of USD 0.57 bln.

In Q1 2008, the Company used the right to extend the short-term loan agreement with a syndicate of international banks in the amount of USD 6.5 bln for the next 6 months, under interest rate at LIBOR plus 0.50% annual interest.

— Corporate Scientific Research and Production Complex facilitating ongoing development and introduction of new technology

— Unified Total Production Management System (TPMSYS™)

— New Technologies System ensuring well-aligned design and implementation of upstream solutions

— Integrated information environment based on the Knowledge Management System, which aims to streamline and automate the accumulation, storage, and sharing of knowledge and best practice

Research and Innovation

Sustained long–term growth of a modern oil and gas company largely depends on adequate scientific support of its production operations and establishment of an efficient corporate innovation system. Rosneft's innovation system is aimed at ongoing technology development and implementation, continuous monitoring and timely adoption of global best practices, as well as providing adequate training to the Company's specialists to ensure that they constantly develop their key competencies.

Managing Research and Development

To streamline and facilitate introduction of new technology, the Company has established the Corporate Scientific Research and Production Complex (CSRPC), which comprises the Corporate Research and Development Center, as well as a number of regional research and development institutes.

In 2007, six new institutes were integrated into CSRPC. Currently, the Complex includes 10 institutes in various regions of Russia: Krasnodar, Ufa, Izhevsk, Samara, Tomsk, Krasnoyarsk, Novokuibyshevsk, Angarsk, and Sakhalin Island. Three of the 10 institutes focus on scientific and design support of refining and petrochemical processes, which is a new research field for the Company.

CSRPC headcount grew from 1,500 in 2006 to 4,000 in 2007. The Complex employs 192 researchers holding postgraduate degrees. Building on rapid growth in personnel, CSRPC saw a significant surge in the total number of projects currently being developed or already implemented, from 185 to 1,150.

Rosneft's Corporate Scientific Research and Production Complex currently employs 4,000 people, 2,500 more than in 2006. In 2007, CSRPC saw a massive surge in the total number of projects currently being developed or already implemented, from 185 to 1,150

Technology Development Trends

Exploration

Technological advances in exploration enable the Company to minimize geological risks and ensure more accurate determination of prospective structures. In 2007, Rosneft completed a number of projects using innovative exploration techniques, such as:

- basin modeling, which allows reducing geological risks by 30–40% as well as significantly cutting field prospecting and exploration costs
- proprietary method of spectral analysis (enhanced 3D seismic data processing), enabling the Company to continuously optimize well location

Efficient use of top-of-the-line exploration technology resulted in an additional 1.88 bln barrels of oil and gas condensate resources, 1.5 times more than in 2006.

Development

To facilitate technological advances in field development, the Company has established the Project Center, which involves experts working at Rosneft and its oil producing subsidiaries, corporate scientific research and design institutes, as well as leading Russian and foreign specialists.

In 2007, Rosneft focused on implementing innovative engineering solutions and further improving the integrated development approach based on a unified field model, which enables a comprehensive analysis of reservoirs and wells, infrastructure development matters, as well as relevant economic parameters. The Company’s business strategy envisages streamlined development operations in strict compliance with this approach by 2010. In 2007, Rosneft carried out five integrated projects at its key fields: Vankor, Val Gamburtseva, Prirazlomnoye, Komsomolskoye, and Osoveyskoye.

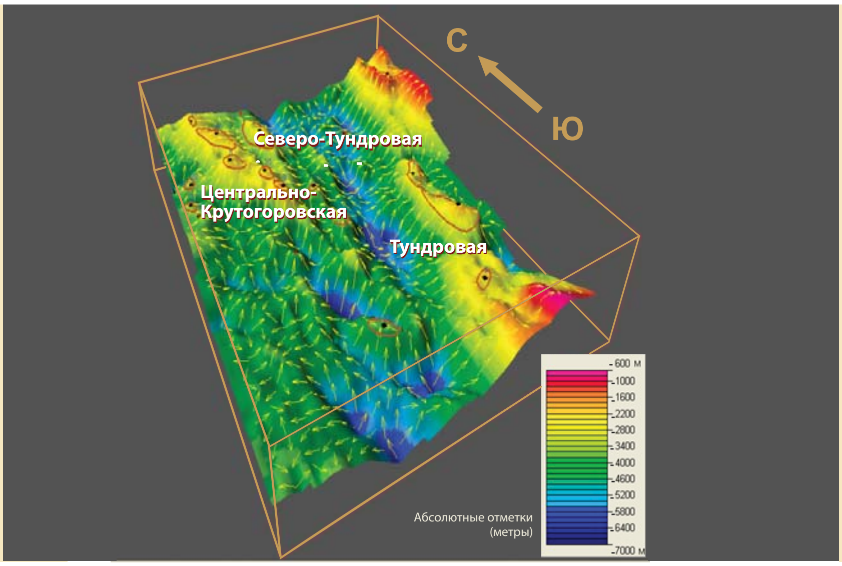
To improve the efficiency of complex field development projects, the Company is establishing the Drilling Support Center and the Well Design and Engineering Center on the basis of Rosneft's corporate research institutes.

Production

In 2007, Rosneft registered the TPMSYS™ trademark. TPMSYS™ (Total Production Management System) is a unified production management system enabling Rosneft's specialists to monitor the operation of any particular well (equipment parameters, design and geophysical data, etc.). In 2007, Total Production Management System was further enhanced with an integrated planning and recovery factor analysis module, which facilitates ongoing production planning as well as comprehensive analysis of target performance indicators. Efficient application of TPMSYS™ at the Priobskoye field resulted in more than 3.6 mln barrels of additional crude oil.

TPMSYS™ is closely linked with the WellView project, another key priority for Rosneft. WellView is an

Technological advances in exploration allow minimizing geological risks and ensure more accurate determination of prospective structures



intellectual well management system allowing real-time control over current parameters of downhole pumping equipment and starting up or stopping well operations when necessary. The system is based on surface equipment, downhole equipment, measuring equipment, and special-purpose software. WellView enables the Company to increase crude output as well as to reduce production costs and associated risks by selecting the optimal operation mode for individual wells and equipment items.

Refining and Petrochemicals

In 2007, Rosneft consistently worked on enhancing its refining and petrochemical processes. Top priorities in this area include:

- upgrading production facilities (in particular, a new pipe still was commissioned at the Komsomolsk refinery, which significantly increased light product yield and reduced production costs)
- optimizing core processes (in particular, switching of the Novokuibyshevsk refinery to more effective catalysts that resulted in Euro-4 diesel fuel output growing threefold, and gasoline octane number increasing by 2–3 points)
- diversifying product mix (in particular, the Company has launched production of an electric motor and pump oil, and a new antiwear additive was developed for Euro-4 and Euro-5 diesel fuel)
- improving resource management and environmental policies

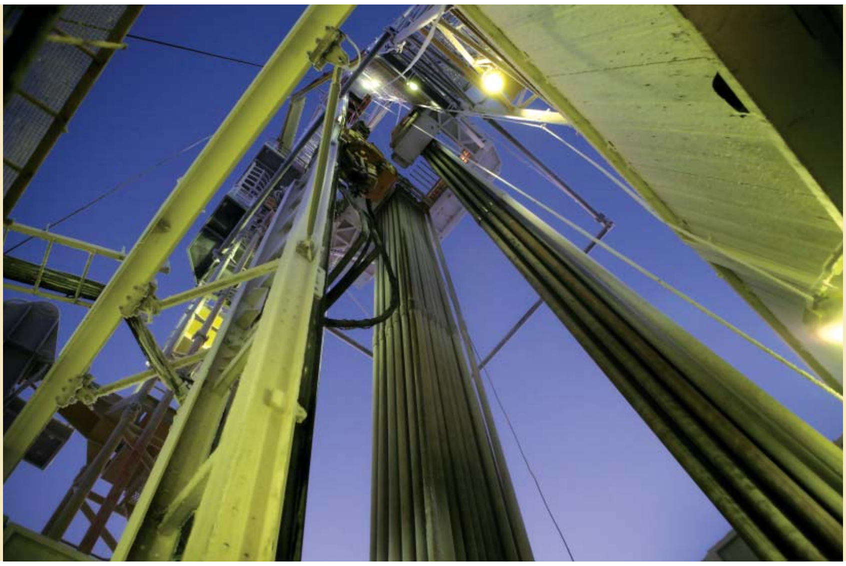
Innovative Development

To maintain a competitive edge and deliver greater performance, the Company has designed and implemented a set of innovative development systems:

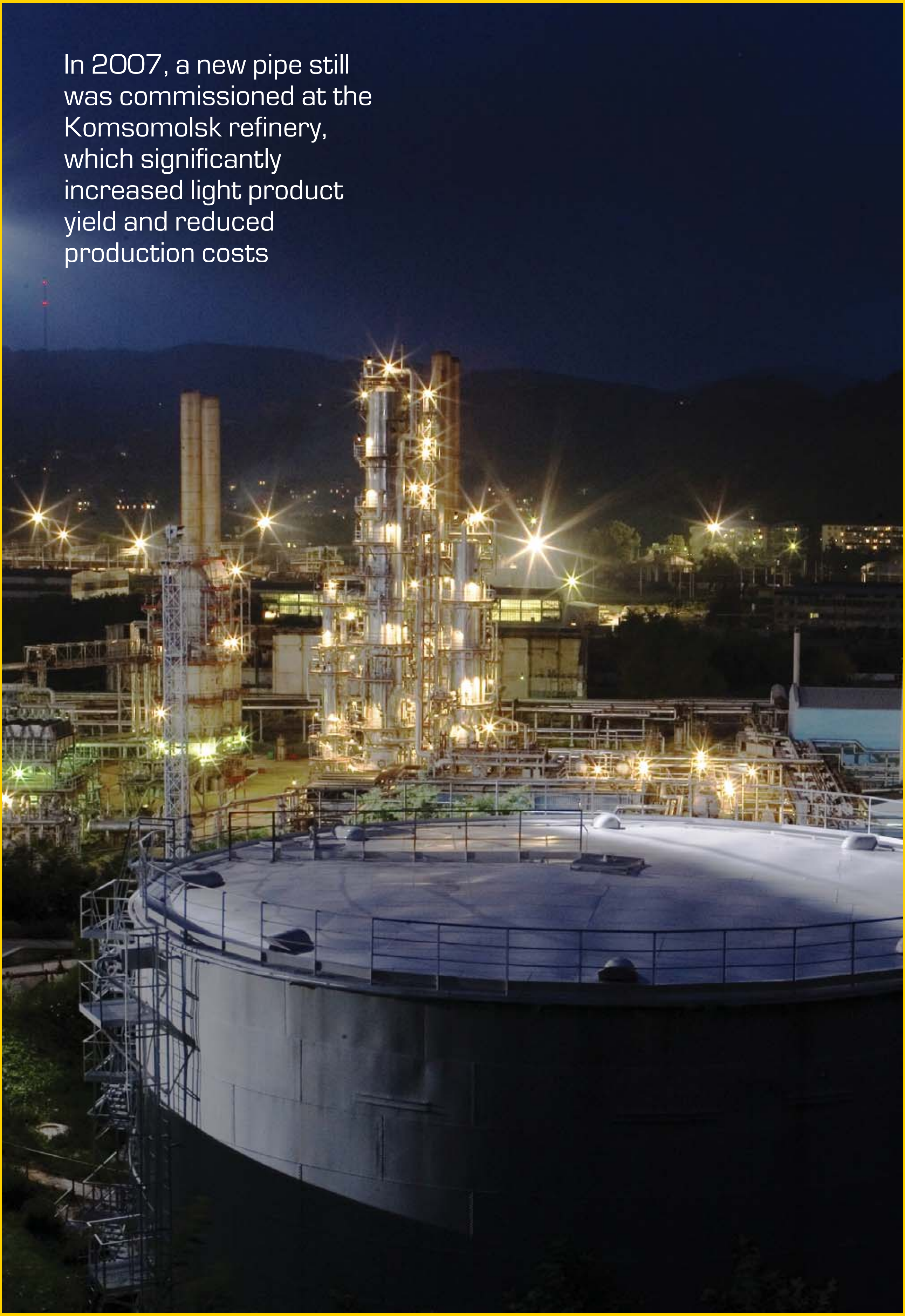
- New Technologies System
- System for Cooperation with Educational Establishments and R&D Centers
- Corporate Training System
- Knowledge Management System
- Quality Management System

New Technologies System

The New Technologies System (NTS) primarily deals with ongoing design and well-aligned implementation of efficient solutions, as an indispensable part of the Company's production operations. This is crucial to ensuring continuous accumulation of reserves, growth in crude output, and cost reduction. NTS has also been largely conducive to creating a core of highly skilled specialists. NTS unites several workgroups dedicated to identifying and researching the priority areas of the Company's operations.



The WellView intellectual well management system allows Rosneft to increase crude output and reduce production costs



In 2007, a new pipe still was commissioned at the Komsomolsk refinery, which significantly increased light product yield and reduced production costs

In 2007, comprehensive research and engineering support of advanced recovery operations at LLC RN-Yuganskneftegaz resulted in 1.2 mln barrels of additional crude oil (economic effect – USD 14 mln).

System for Cooperation with Educational Establishments and R&D Centers

Growing production operations and increasingly diverse business projects necessitated the launch of the Technological Challenge research and development program, which is being implemented in close cooperation with leading national and foreign experts. In 2007, major efforts were concentrated on introducing advanced solutions for field development design, modeling, and monitoring.

Rosneft continues to collaborate with the world's top education and research centers, including: Stanford University (modeling techniques, streamtube simulation techniques), University of Tulsa (IT solutions for downhole and surface equipment), Institut Francais du Petrole (hydrocarbon formation modeling), University of Calgary (computer modeling of hydraulic fracturing and other processes); Golder & Associates, Seattle (advanced techniques of fractured reservoir development), and SRT Group, Norway (advanced field development technique based on controlling and adjusting fluid velocity profile).

Corporate Training System

To efficiently utilize the potential of new technology and consistently develop key competencies of the Company's personnel, Rosneft has established the Corporate Training System.

In 2007, Rosneft conducted 66 courses devoted to exploration, development, and production, attracting the best lecturers from leading Russian and foreign educational establishments. The Company's experts also actively participate in delivering lectures and seminars. Rosneft's professional development system is in line with the adopted research and innovation strategy, and covers all the Company's business processes.

Rosneft is also implementing a Master's program for graduates of leading Russian universities (Lomonosov Moscow State University, Moscow Institute of Physics and Technology, Russian State University of Oil and Gas, and Moscow State Institute of International Relations), which is a collaborative effort of educational establishments and the Company. In 2007, seven graduates joined Rosneft's subsidiaries after successful completion of the program.

Knowledge Management System

Rosneft has established and is further developing an integrated information environment that includes the RN-Expert Knowledge Management System (KMS), which aims to streamline and automate the accumulation, storage, and sharing of knowledge and best practice throughout the Company.

In 2007, Rosneft implemented a comprehensive knowledge management strategy, as well as the Technology Database that contains data on more than 250 technologies used worldwide. In addition, the Company started developing an Innovative Warehouse.

As of year-end 2007, the Company and its subsidiaries registered 240 items of intellectual property, including invention and utility model patents, and software certificates, with the Federal Service for Intellectual Property, Patents and Trademarks.

To ensure sustainable knowledge sharing and transfer of specialist expertise, as well as to seek and discuss the best solutions to critical issues, Rosneft's specialists conduct seminars, workshops, and knowledge sharing sessions in the key regions of the Company's operation. In 2007, Rosneft held several academic and practitioner conferences that gathered experts from leading Russian and foreign research and service companies.

Quality Management System

Increasing labor efficiency is among the key national priorities set by the Russian Government. Rosneft has been actively implementing long-term solutions to align and optimize business processes. By 2020, the Company plans to increase the CSRPC efficiency almost fourfold. In 2007, application of innovative reengineering methods led to a 5% gain in efficiency.

To fully utilize the potential of innovative development, Rosneft is implementing the Quality Management System and integral R&D tools ensuring sustained business operations. In 2007, QMS covered 10 corporate research and design institutes. Rosneft will also continue upgrading CSRPC, and plans to certify the Complex to ISO 9001.

Unified quality requirements, improved quality policies, and refined business processes will enable Rosneft to attain a 30–40% reduction in design costs by 2012.

Information Support

Information support is among the key factors driving the Company's overall performance and operating results. Successful implementation of integrated design and comprehensive engineering solutions heavily depends on an efficient information environment.

Further development and enhancement of the corporate information system based on SAP R/3 is aimed at real-time information support of all specialists involved in accounting, reporting, and managing the Company's financial data.

In 2007, within the framework of developing the corporate information system, Rosneft integrated its new assets into the IT environment. That involved creating consolidated databases for the Company's fixed assets, construction in progress, intangible assets, exploration assets, and R&D activities. At present, the Regulatory Support Database contains more than 2,500 documents and allows formalizing, unifying, and controlling production processes and management.

As part of developing time-efficient mechanisms of consolidated reporting (RosA Project), the Company has designed and implemented solutions to facilitate data collection, reconciliation, and transformation within its subsidiaries. More than 250 Rosneft's enterprises have been equipped with RosA workstations.

Another high priority for Rosneft is upgrading and improving the automated management and reporting environment for the marketing network.

Targeted and comprehensive information exchange is supported by consistent integration of the following systems:

- Production Monitoring System that allows retrieving current indicators of Rosneft's production companies and operating well stock data, assessing wellwork efficiency, monitoring drilling operations, field pipelines, as well as selected parameters. Key functionalities of PMS have already been implemented throughout the Company's upstream subsidiaries
- Information and Telecommunications System Supporting Field Infrastructure Design, which is aimed at facilitating operations of the Company's field design divisions. Its key benefits include: higher-quality and faster design activities, easy access to project documentation, as well as reduced costs of infrastructure development and operation due to regular information updates

The Company also carries out fully-fledged metrological support of production and construction activities. In 2007, accurate and precise assessment of oil reserves was performed at licensed blocks under preferential tax treatment. The Company's total benefits from such measures (35 licensed blocks) amounted to approximately USD 68 mln.

— Rosneft’s employees work in almost every region of the Russian Federation

— Integrated management system for industrial safety, labor and environmental protection

— A policy of high social responsibility to the employees and their families, the people in the regions where Rosneft operates, and to society at large

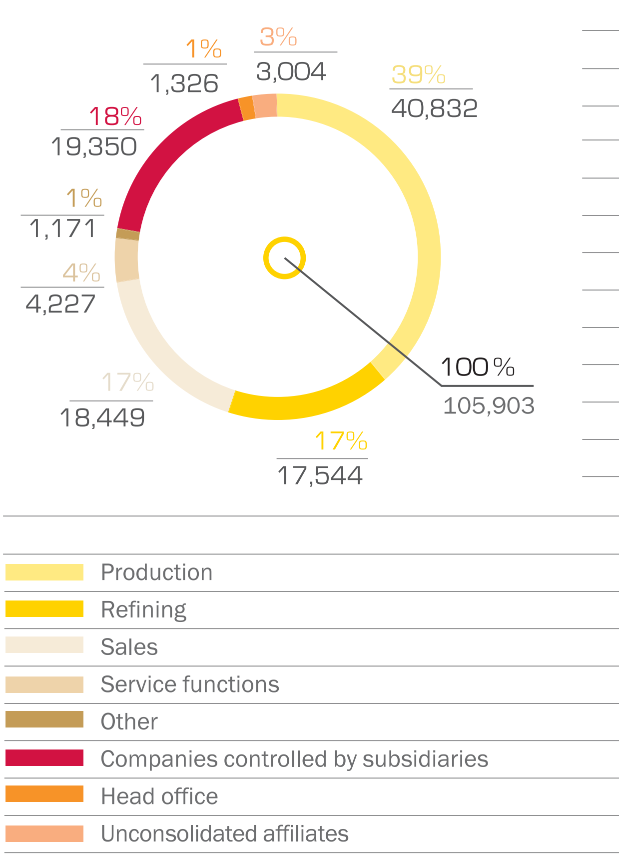
Social Responsibility

Personnel

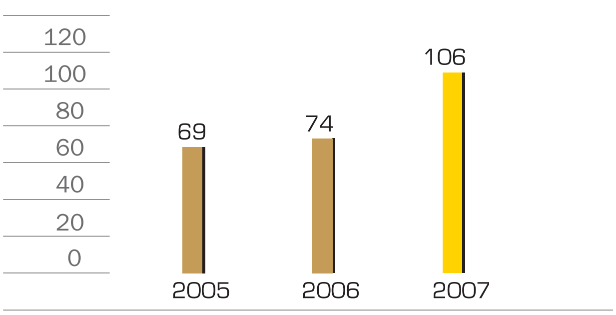
Rosneft believes that its steady business growth is essentially a result of hard work and dedication of its entire staff. Accordingly, the Company strives to adequately recognize the efforts of everyone involved. As our most valuable intangible, personnel provide a significant and lasting contribution to the Company's shareholder value and performance. Rosneft is committed to ensuring equal opportunities and competitive reward for all employees.

Sustainable development over the long term depends on constant improvement of responsible work practices throughout the Company's operations. Therefore, Rosneft's social policies are primarily intended to enhance the overall labor efficiency through encouraging the highest standards of business conduct, introducing relevant performance incentive schemes to motivate effort, and improving the quality of life of employees, their families, and broader communities.

Personnel structure by area of activity
(people)



Average headcount
(thousand people)



In 2007, Rosneft employed an average of 106,000 people, including 86,500 at subsidiaries, and 19,500 at affiliates. The Company's employees work in almost every region of the Russian Federation.

In 2007, the average age of Rosneft employees was 41. The Company employed 11,150 executives. In 2007, Rosneft hired 33,455 new staff, mainly as a result of the 2007 acquisitions.

Also in 2007, a total of 62,582 employees took part in professional development courses, three times more than in 2006. In 2008, Rosneft plans to provide training to another 74,745 employees.

Securing a Sustainable Future

Further development of the Company essentially depends on the continuous inflow of human capital. Therefore, Rosneft is focused on attracting highly motivated and talented young employees. Looking to the

Rosneft is focused on attracting highly motivated and talented young employees. Looking to the future, the Company's major objective is to provide comprehensive support to people who will join Rosneft in five or ten years

future, the Company's major objective is to provide academic and social support to the people who will join Rosneft in five or ten years.

The Company has established a pre-higher education program for future professionals through specialized Rosneft classes, to give them a solid foundation in core subjects and the opportunity to gradually familiarize themselves with key areas of the Company's operations. Students are offered vocational training, which is complemented by visits to Rosneft's enterprises, as well as meetings with distinguished oil and gas specialists and young employees. Students also become familiar with the business processes used in oil exploration and production.

In 2007, Rosneft set up 34 pre-higher education classes in 18 cities and towns where it operates, which provided training to 846 students. On September 1, 2008, another 1,125 students are expected to join 45 classes introduced in 22 localities. The classes provide students with a solid basis for further study at higher education establishments.

Rosneft also conducts training courses for teachers and psychologists working in Rosneft classes.

The Company closely cooperates with Gubkin Russian State University of Oil and Gas, Lomonosov Moscow State University, Moscow Institute of Physics and Technology (State University), Moscow State Institute of Foreign Relations (University) under the Russian Ministry of Foreign Affairs, Ufa State Oil Technical University, Tyumen State Oil and Gas University, Kuban State Technological University, Tomsk Polytechnic University, Udmurt State University, Samara State Technical University, and other leading Russian educational establishments.

Rosneft consistently supports its partners in improving their educational and technological infrastructure. Furthermore, the Company provides sponsorship and conducts training for the partner universities' teaching staff at Rosneft's enterprises. Teachers are also offered corporate grants on a competitive basis.

Rosneft has developed a corporate and social scholarship program, which significantly contributes to the Company's long-term objective of creating a pool of talented specialists. In 2007, corporate scholarships were awarded to 28 students. The most promising students and graduates are offered internships with Rosneft's enterprises and may be subsequently employed on a full-time basis. During 2007, the Company's subsidiaries and corporate research institutes offered internships to 2,400 people and hired 900 of them.

In 2007, Rosneft also held 25 competitions and training sessions at the partner educational establishments, as well as regional and interregional workshops and conferences that attracted about 3,500 participants.

The Company devotes special attention to ongoing professional development of its young specialists. Rosneft has therefore established councils for 2,250 young specialists it currently employs, as well as a coaching and mentoring system that helps them to get accustomed to working in the Rosneft environment. This integrated approach enables the Company to design and deploy efficient work practices and ensure broader career opportunities for its young professionals.

Professional development policy covers all the Company's business processes, which is largely possible due to Rosneft's active cooperation with leading national and foreign educational establishments and research centers

The 2nd Interregional Research Conference held in June 2007 attracted 89 young specialists from various enterprises of the Company. Rosneft intends to further encourage the participation of its young staff in research and development activities, training sessions, and other activities. In 2008, the Company plans to hold several scientific and research conferences devoted to business processes in the oil and gas industry, as well as to introduce a host of new professional development programs.

Training and Professional Development of Personnel

Rosneft offers equal opportunities to all of its employees to continuously improve their key competences and skills.

A key aspect of the Company's personnel policy is a corporate professional development system aimed at:

- increasing the educational level of different categories of employees
- flexible professional development of managers, based on a comprehensive assessment of their core competences
- monitoring the efficiency of training and professional development programs

Corporate training programs developed in close cooperation with Russian and foreign institutes and business schools are open to all categories of employees.

Rosneft offers the International Oil and Gas Business MBA program, which has been a joint effort of the Company, Norway's Bodo Graduate School of Business, and MGIMO. In 2007, 22 managers enrolled in this program, while another five employees took the Oil and Gas MBA at the Stockholm School of Economics (SSE). A further 30 employees completed the Oil and Gas Manager and Drilling Supervisor programs developed by Rosneft and Gubkin Russian State University of Oil and Gas.

The professional development policy covers all the Company's business processes. This is largely possible due to Rosneft's active cooperation with leading national and foreign educational establishments and research centers, including: Gubkin Russian State University of Oil and Gas, Ufa State Oil Technical University, The Russian-Canadian Oil and Gas Technology Training Center, University of Tulsa, University of Houston, Stanford University, Next, IHS Energy, Colorado School of Mines, University of Alberta, and Baker Hughes.

Rosneft has also launched a project to create a Corporate Education and Training Center. In 2007, the Company actively participated in the construction of new educational facilities, as well as in the renovation and technical upgrade of the existing professional development infrastructure.

Rosneft is also carrying out comprehensive training courses for specialists that will guide its strategic projects in the near future. In particular, a major professional development program is being implemented at CJSC Vankorneft. The Company is also focused on enhancing its coaching and mentoring system.

All these measures enable Rosneft to attract, motivate, and retain qualified professionals, thus constantly increasing labor efficiency.

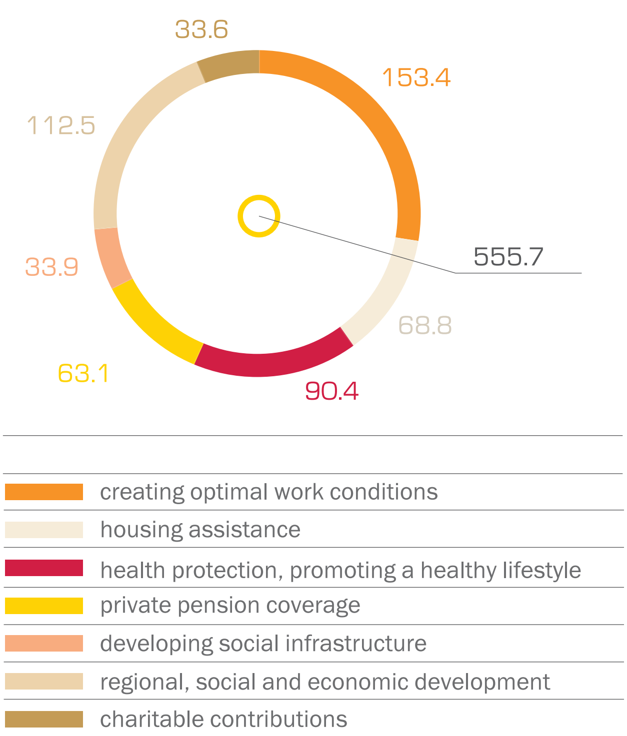
In 2007, Rosneft set up 34 pre-higher education classes, which provided training to 846 students

Social Policy and Charity

Rosneft pursues a policy of high social responsibility to its employees and their families, to the people in the regions where it operates, and to society at large.

The Company implements a comprehensive set of social welfare and charitable activities aimed at creating safe and comfortable labor conditions, assisting with housing, improving the quality of life and professional development of the employees, supporting the veterans and retirees, and fostering regional socioeconomic development.

Expenditures on core social programs
(USD mln)



In 2007, Rosneft and its subsidiaries were nominated in recognition of their achievements in several categories at the 7th National Competition, The Enterprise of High Social Efficiency, which is sponsored by the Russian Government. LLC Rosneft – Purneftegaz won the Social Programs award, LLC Rosneft – Severnaya Neft and LLC Rosneft – Nakhodkanefteprodukt took the second place in the Compensation and Charity categories, respectively, whereas LLC Rosneft – Krasnodarneftegaz won an industry award.

Key Areas of Social Policy

Rosneft's social policy is integral part of its corporate strategy. The policy is intended to provide comfortable and safe labor conditions for the employees, and improve the quality of life of their families.

The Company's social policy includes the following:

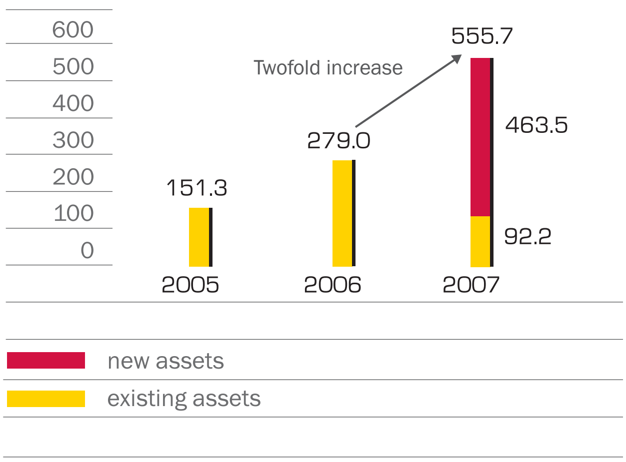
- housing assistance
- providing comfortable conditions for work and recreation
- health protection, promoting a healthy lifestyle
- private pension coverage
- developing social infrastructure

Rosneft launched a comprehensive environmental program, which is set to run through 2010

- participating in regional socioeconomic development
- charitable activities in healthcare and education

Rosneft's social measures are in line with the housing, educational, and healthcare national projects currently being implemented by the Russian Government.

Social expenditure
(USD mln)



During 2007, the Company invested USD 556 mln in its social programs, which in terms of their scope are on a par with those of the world's largest corporations.

Housing Construction and Mortgage Lending

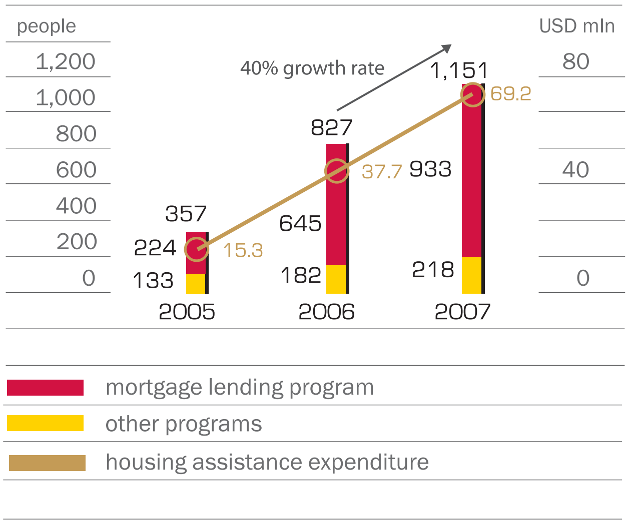
Rosneft has implemented and is further developing housing construction and mortgage lending programs to improve the living conditions of employees. The Company's leading specialists are provided with corporate apartments.

During 2007, Rosneft provided 74,000 sq. meters of residential space to more than 1,150 employees, up 40% compared to 2006. In addition, 90 corporate apartments were purchased to accommodate the Company's specialists from various regions of Russia.

Rosneft is actively engaged in housing construction in Siberia, the Far East, the Chechen Republic, Dagestan, and the Stavropol region. Last year, 933 employees took part in the Company's long-term mortgage lending program, 1.5 times more than in 2006. Rosneft's most talented employees are granted interest-free loans to finance down payments on their new apartments.

In 2007, the Company spent over USD 23 mln on mortgage benefits, a 70% growth compared to 2006,

Housing assistance



Rosneft's social policy aims to provide comfortable and safe labor conditions for the employees, and improve the quality of life of their families

which was driven by the increased number of mortgage program participants and higher residential prices (in some regions, residential prices rose more than 1.5 times).

In addition, Rosneft invested approximately USD 69 mln in the Comprehensive Housing Program. During 2008–2012, more than USD 250 mln is planned to be spent on this program, which will help 4,850 employees to significantly improve housing conditions.

Improving Working Conditions and Social Infrastructure

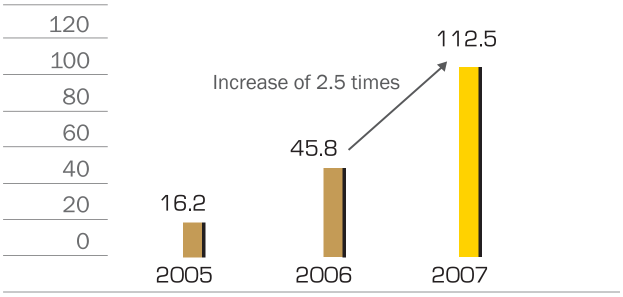
Rosneft has consistently focused on creating comfortable and safe working conditions to ensure maximum labor efficiency. The Company has adopted the Social and Production Standards for Shift Workers and operates in strict compliance with these regulatory requirements. In 2007, Rosneft invested a total of USD 153 mln in its social infrastructure development program.

In particular, about USD 53 mln was spent on further development of the existing shift camps and respective infrastructure, as well as on the construction and renovation of other social facilities. In 2007, Rosneft's subsidiaries completed the construction of three dormitories, and participated in the refurbishment and renovation of more than 200 catering, accommodation, and sports facilities. At the Vankor field, Rosneft is currently developing a modern shift camp that will accommodate 700 workers.

Local Infrastructure Development

Rosneft collaborates with local governments on comprehensive social development programs. The Company is significantly contributing to the continuous improvement of regional infrastructure, including healthcare, recreation, sports facilities, and libraries.

Regional development agreements
(USD mln)



In the framework of current social development agreements, Rosneft invested a total of USD 112 mln in 2007, an increase of USD 67 mln compared to the previous year.

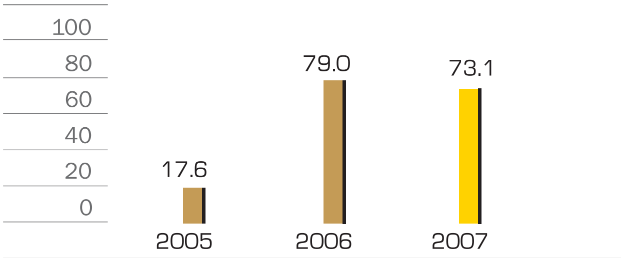
In 2007, the Company was involved in the construction and renovation of five schools, eight kindergartens, six cultural centers and sports arenas, nine healthcare centers, and four churches. In addition, Rosneft made substantial investments in the construction of roads, pipelines, utility systems, as well as in other major infrastructure developments in most regions of its operation.

Private Pension Coverage

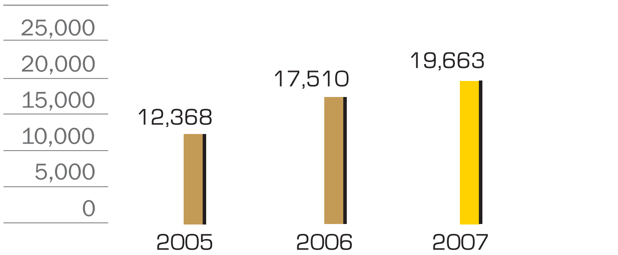
Rosneft has implemented and is constantly improving a private pension coverage program. As part of the program, Rosneft pays out corporate pensions, which are subject to regular indexing. Retirees also receive state pensions.

During 2007, Rosneft provided 74,000 sq. m of residential space to over 1,150 employees, up 40% compared to 2006

Pension contributions
(USD mln)



Number of retirees and veterans entitled to corporate pensions (people)



Currently, more than 100,000 employees participate in the private pension program. In 2007, Rosneft and its subsidiaries contributed approximately USD 63 mln to a private pension fund managed by Neftegarant. More than 19,000 retirees are also entitled to lifetime corporate pensions. In the near future, Rosneft will significantly expand the lifetime pension coverage program.

In 2007, the monthly average corporate pension was RUB 1,400 (USD 55). In October 2007, the Company initiated a series of measures to enhance the existing system of private pension coverage.

Rosneft is also implementing an individual pension coverage system that has the following three complementary parts:

- state pension
- corporate cumulative pension contributed by Rosneft
- pension from employees' voluntary contributions to a private pension fund managed by Neftegarant

As part of its social responsibility policy, Rosneft consistently supports its veterans and retirees through supplementary private pensions and financial benefits.

In 2007, together with the funding of supplementary pension coverage for veterans and retirees, the Company allocated more than USD 6 mln to payments for medical services and rehabilitation benefits.

Charity

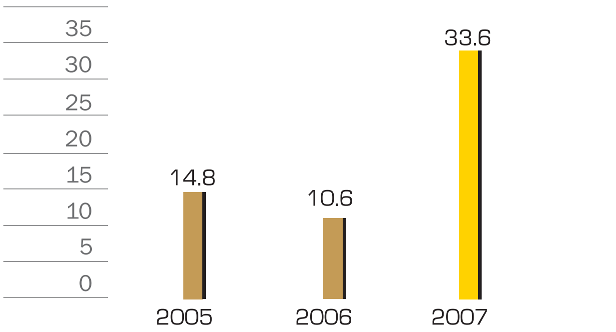
Rosneft actively participates in charitable activities and renders financial support to educational establishments and healthcare organizations. Overall, in 2007, the Company spent approximately USD 34 mln on charitable activities.

Investing in education is among the Company's top priorities. Rosneft provides schools, universities, and partner educational establishments with modern computers and digital equipment, laboratory equipment, and other items. This ongoing support is crucial to ensure a dynamic inflow of human capital. In 2007, Rosneft's total investments in education were nearly USD 4 mln.

Providing comfortable conditions for work and recreation to its employees is among Rosneft's top priorities

Health protection and promotion of a healthy lifestyle is another key focus for the Company. Rosneft's respective investments in 2007 amounted to USD 1.2 mln.

Charitable activities
(USD mln)

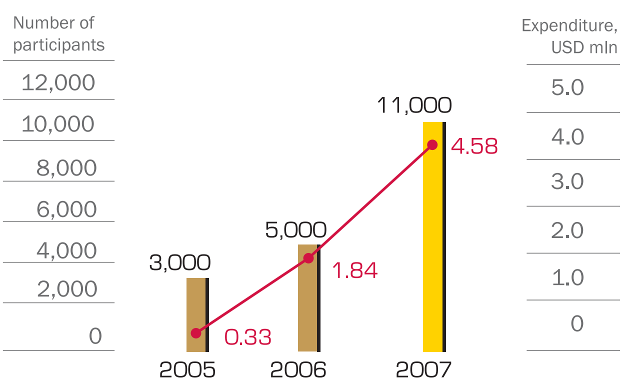


Rosneft also supports social and non-for-profit organizations, as well as several indigenous communities of the Russian North. The Company is involved in the construction of schools, healthcare and other facilities, and the comprehensive development of public infrastructure. These localities are provided with modern machinery, equipment, and fuel; the Company finances summer recreation programs for children, exhibitions, contests, and other events.

Support for Education, Culture, and Sports

In 2007, Rosneft financed USD 0.6 mln of education loans obtained by 369 employees of its subsidiaries.

Number of participants and Rosneft's expenditure on Sports Tournaments



The Company also held the 3rd Sports Tournament, which attracted more than 11,000 employees. Rosneft's total investment in the tournament was USD 4.6 mln.

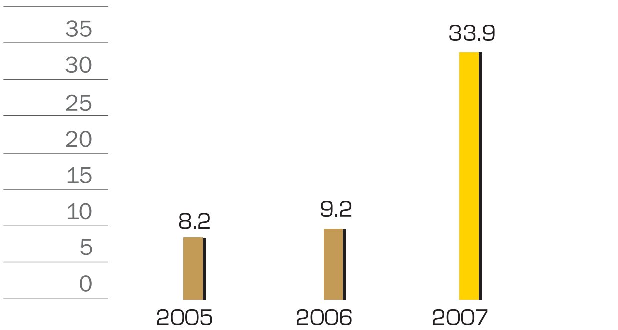
Rosneft takes pride in the success of many of its specialists on both national and international sports venues. In December 2007, Ivan Schekotov and Yuri Shtertser of Altainefteprodukt won their respective weight categories at Veterans' World Kettlebell Lifting Championship in San Diego (USA). Mr. Schekotov and Mr. Shtertser also took championship in the kettlebell lifting contest at the 3rd Sports Tournament.

In 2008, finalists of the 4th Sports Tournament will meet in the city of Sochi. The tournament is expected to be attended by some 15,000 employees from 66 Rosneft's subsidiaries.

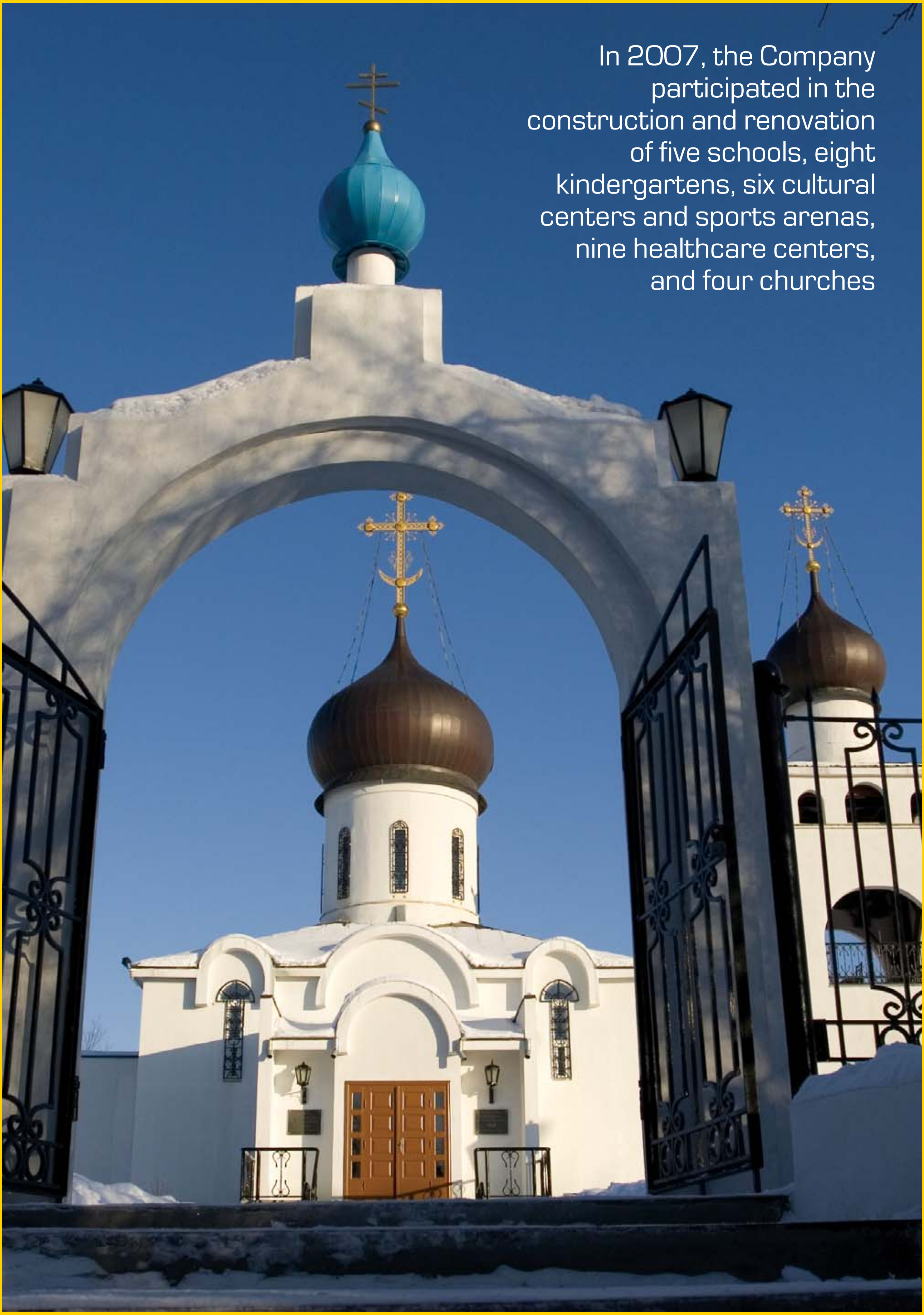
Social Infrastructure Maintenance

The acquisition of new assets in 2007 enabled Rosneft to considerably expand its social infrastructure, adding 250 new facilities (healthcare and recreation centers, sports facilities, and dormitories). The Company's total maintenance expenditure was approximately USD 34 mln, an increase of 3.7 times compared to 2006.

Rosneft's expenditure on social infrastructure maintenance (USD mln)



Rosneft is currently implementing a large-scale program to spin off certain non-core assets and establish Wellness Centers on the basis of social facilities in areas of outstanding natural beauty (Baikal Lake, Volga River, etc.). These centers will ensure higher corporate healthcare standards and help the Company to reduce its costs of social infrastructure maintenance.


In 2007, the Company participated in the construction and renovation of five schools, eight kindergartens, six cultural centers and sports arenas, nine healthcare centers, and four churches

Health, Safety and Environmental Protection

Rosneft adheres to the requirements of Russian and international legislation on labor safety, health and environmental protection. The Company applies cutting-edge technology and enhanced production methods to create a safe and healthy working environment, as well as to minimize the risk of industrial accidents and other emergency situations.

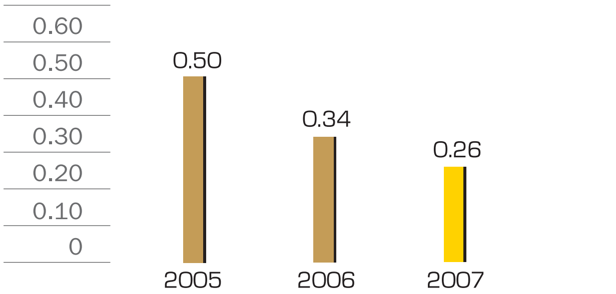
Rosneft's policy on industrial safety, labor and environmental protection contains the following key provisions:

- reducing industrial injuries and adverse environmental impacts
- improving industrial and environmental safety to meet current international requirements
- establishing and maintaining an efficient management system for industrial safety, labor and environmental protection
- reducing industrial risks from newly commissioned facilities

The Company has implemented an integrated management system for industrial safety, labor and environmental protection. To ensure its efficient operation and continuous improvement, Rosneft has introduced corporate standards stipulating key areas for further development.

In 2007, Rosneft intensified its effort to enhance and extend the policy for industrial safety, labor and environmental protection. The Company continued to develop its systems for environmental management, monitoring, and audit in compliance with internationally accepted standards.

Number of industrial accidents
(per million of hours worked)



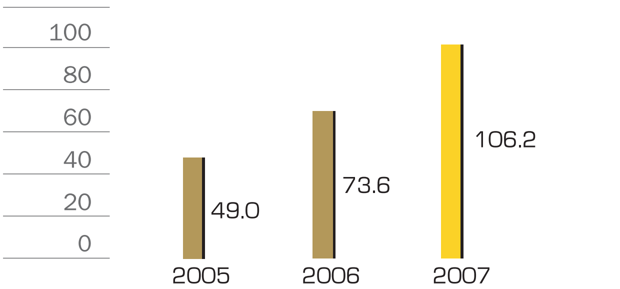
The environmental, health and safety audit program confirms that the Company's integrated management system is fully operational, has been continuously upgraded, and generally meets all evaluation criteria. Currently, Rosneft's subsidiaries hold ISO 14001 and OHSAS 18001 certificates at 27 production sites.

The Company's employees also regularly participate in training programs to share knowledge and experience on labor safety and environmental protection.

Improving industrial safety has always been among Rosneft's top priorities. In 2007, total spending on industrial and labor safety at the Company and its subsidiaries was USD 76 mln, an increase of 2.9 times compared to 2006. The overall accident rate per million of hours worked decreased to 0.26, down 24% against the previous year.

Rosneft has implemented and is actively developing an integrated management system for industrial safety, labor and environmental protection

Environmental spending
(USD mln)



The Company also develops comprehensive healthcare programs. Rosneft's social package includes medical insurance, illness prevention, and rehabilitation benefits. In 2007, the Company spent a total of USD 20 mln on medical insurance for more than 87,000 employees.

Rosneft pursues a policy of responsible and safe development of subsurface resources. A major goal of the Company's subsidiaries is to ensure continued reduction of adverse environmental impacts and industrial risks. Regular equipment upgrades and more stringent process requirements are crucial to achieving this objective.

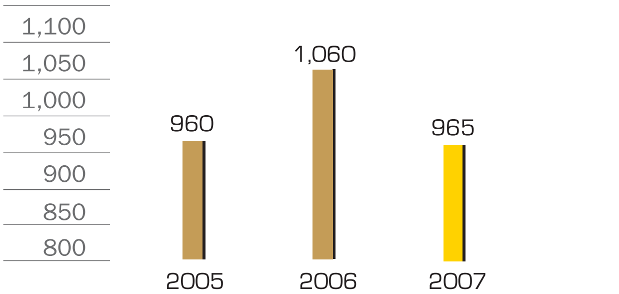
Rosneft strictly complies with the terms of its environmental license agreements, paying particular attention to efficient land use and reclamation. In its environmental and reclamation activities, Rosneft closely collaborates with specialized companies that use top-of-the-line technology and equipment.

In 2006, Rosneft launched the Environmental Program aimed at improving the ecological situation in all regions where the Company operates. The Program is set to run through 2010 and envisages the following:

- construction of landfills, treatment and reclamation facilities
- establishment of emergency cleanup stations to minimize adverse effects of spilled oil and refined products
- purchase of modern environmental equipment.

In 2007, the Company implemented extensive environmental protection measures that included ecological evaluation and planning, geoecological research, contaminant source inventories, and obtaining environmental permits. Rosneft was also actively involved in purchasing and upgrading oilspill recovery and other equipment, utilizing and recycling oil sludge, as well as constructing new treatment and reclamation facilities.

Gross emission of pollutants
(thousand t)



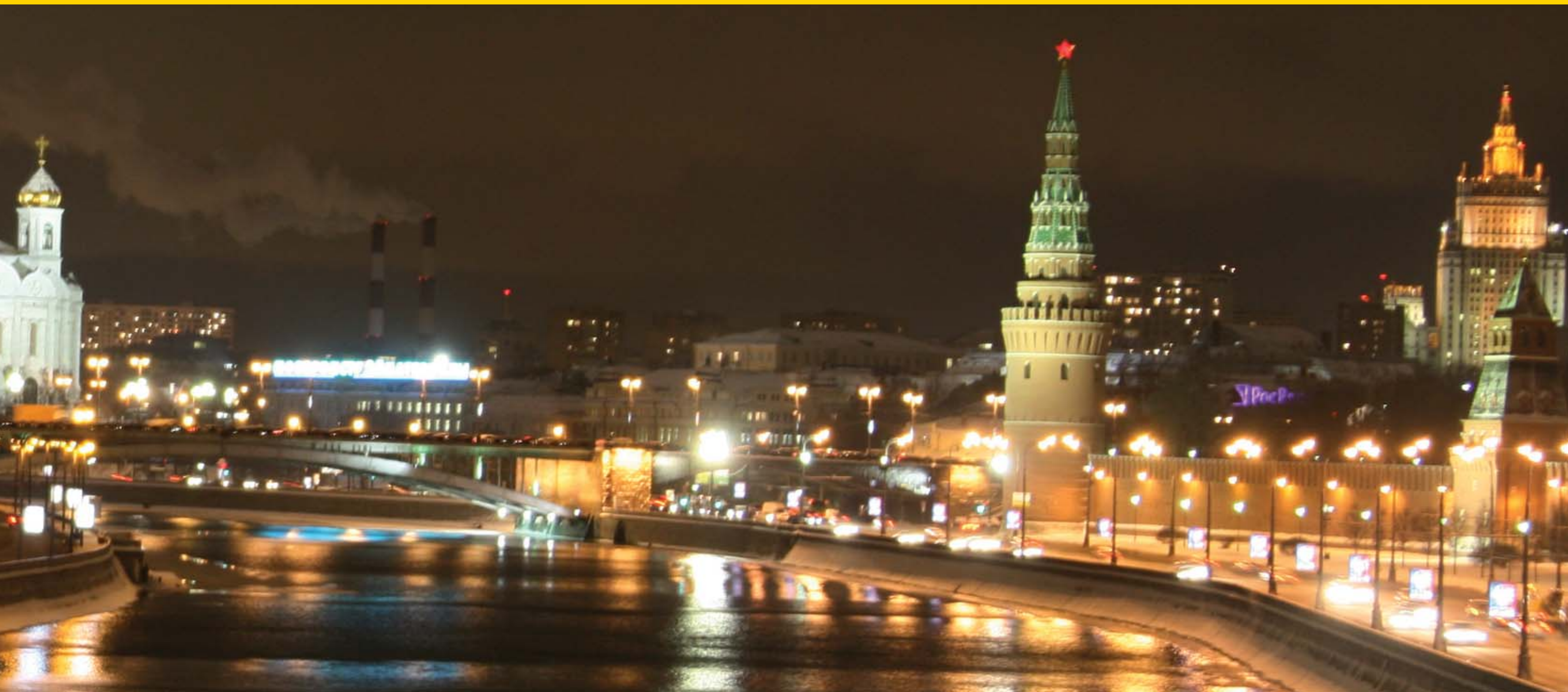
These measures allowed Rosneft to reduce its gross emission of pollutants by 10% compared to 2006 and 30% against the target for 2007.

In 2007, the Company's environmental spending increased by 45% against 2006 to reach USD 106 mln.

In 2007, total spending on industrial and labor safety at Rosneft and its subsidiaries was USD 76 mln, up 2.9 times compared to 2006

- Three independent directors on the Board of Directors
- Three committees of the Board of Directors: the Audit Committee, the HR and Remuneration Committee, and the Strategic Planning Committee
- Information disclosure policy complying with best practice standards
- A strategy of steadily increasing dividend payments in absolute terms

Corporate Governance



Corporate Governance

Rosneft continuously improves its corporate governance system to comply with current international standards and global best practices. The Company strives to enhance the efficiency and transparency of its relationships with institutional investors and shareholders to maintain its competitive edge, increase investment attractiveness, reduce the cost of borrowing, and consequently achieve a higher market capitalization.

Rosneft's Board of Directors, with the exception of the Company President, includes non-executive directors, three of whom are independent. In 2007, the Board of Directors included three committees: the Audit Committee, the HR and Remuneration Committee, and the Strategic Planning Committee. All the Committees are headed by independent directors.

To secure the rights of shareholders, the Annual General Shareholders' Meeting of Rosneft held on June 7, 2006 approved the following internal regulatory documents:

- Regulation on the General Shareholders' Meeting
- Regulation on the Board of Directors
- Regulation on the collegial executive body (Management Board)
- Regulation on the sole executive body (President)
- Regulation on the Internal Audit Committee

A number of internal regulatory documents were approved by the decision of the Board of Directors as of May 17, 2006 (Minutes No. 6):

- Regulation on the formation and activities of the Committees of the Board of Directors
- Regulation on the Audit Committee of the Board of Directors
- Regulation on the HR and Remuneration Committee of the Board of Directors
- Regulation on the Strategic Planning Committee of the Board of Directors
- Code of Corporate Governance
- Regulation on the Corporate Secretary
- Regulation on dividend policy
- Regulation on insider information
- Regulation on information disclosure policy
- Regulation on internal control of operating and financial activities
- Regulation on the Counting Commission

To ensure strict compliance with the provisions of the Corporate Governance Code, approved at the Russian Government session as of November 28, 2001 (Minutes No. 49), on May 22, 2007, the Company's Board of Directors resolved to broaden the scope of responsibility of the Corporate Secretary in the area of supporting the Board of Directors' activities; all relevant amendments and supplements were introduced to the Corporate Governance Code and the Regulation on the Corporate Secretary.

Rosneft's Charter and the above-mentioned documents are available on the Company's website at http://www.rosneft.ru/Investors/information/charter/.

Information on observation of Rosneft's Corporate Governance Code is included in appendixes to this annual report.

Information transparency is a key principle underlying the Company's corporate governance system. In 2007, Rosneft intensified its effort to ensure higher transparency of the information environment, which is confirmed by the following achievements:

- award in nomination for the Best Information Disclosure for Investors on Website of the 10th Annual Contest of Annual Reports and Corporate Sites, held by RTS and Securities Market Magazine
- according to Standard & Poor's research, Rosneft is one of the 10 most transparent companies among 80 largest Russian issuers

Rosneft's significant progress in improving its corporate governance and strengthening business profile was highly appreciated by international rating agencies. Fitch Ratings raised the Company's long-term credit rating to BBB-, while Moody's and Standard & Poor's upgraded Rosneft from Baa2 to Baa1 and from BB to BB+, respectively. As a result, in 2007, the Company had investment grade ratings from two major rating agencies.

On June 30, 2007, Rosneft held its first Annual General Shareholders' Meeting as a publicly traded company, which was dedicated to the results of the 2006 financial year. The Company's management successfully implemented all decisions taken at the meeting.

Following the results of the Annual General Shareholders' Meeting, several meetings with the minority shareholders were scheduled to address the most relevant matters of company law and shareholders' rights. In November 2007, Rosneft also held a seminar dedicated to general principles of dividend declaration and payment at joint-stock companies, as well as the dividend history of Rosneft. At several meeting scheduled for 2008, the Company plans to cover a number of issues related to the registrar and nominee holders, information disclosure policy, shareholders' rights, management functions, and development plans of Rosneft.

During 2007, a series of measures was implemented that enabled Rosneft to reduce tariffs for depositary services to individuals, as well as to cancel fees for equity securities registration services and depositary-to-register transfer of shares and vice versa.

Board of Directors

Rosneft's Board of Directors is responsible for general management of the Company within its authority, as stipulated by the Federal Law On Joint-Stock Companies and Rosneft's Charter.

The Company strives to constantly improve the efficiency of the Board of Directors' activity, which is assured by high qualification of the members of the Board of Directors, their strong commitment to high personal and corporate responsibility, as well as a balanced combination of executive, non-executive, and independent members.

Rosneft's Board of Directors consists of nine members, three of whom are independent directors.

The Board of Directors as of December 31, 2007

Igor Sechin

Chairman of the Board of Directors of Rosneft

Born in 1960. In 1984, graduated from Leningrad State University. PhD in Economics.

From 2003 to 2004 – Deputy Head of the Executive Office of the President of the Russian Federation.
From 2004 – Deputy Head of the Executive Office of the President of the Russian Federation, Aide to the President of the Russian Federation.
From 2004 – member of the Board of Directors of Rosneft.

Sergey Bogdanchikov

Member of the Board of Directors, President of Rosneft

Born in 1957. In 1981, graduated from Ufa Petroleum Institute with honors. Doctor of Engineering and author of several scientific publications.

From 1993 – General Director of Sakhalinmorneftegaz.
From 1997 – Vice-President of Rosneft. On October 14, 1998, appointed President of Rosneft by the Russian Government's Resolution.
From 1995 – member of the Board of Directors of Rosneft.

Hans–Joerg Rudloff

Independent member of the Board of Directors of Rosneft, Chairman of the Audit Committee, member of the HR and Remuneration Committee

Born in 1940. In 1965, graduated from Berne University (Economics).

From 2003 – Chairman of the Supervisory Board of Barclays Capital.
From 2006 – member of the Board of Directors of Rosneft.

Andrey Kostin

Independent member of the Board of Directors of Rosneft, Chairman of the HR and Remuneration Committee, member of the Audit Committee

Born in 1956. In 1978, graduated from Lomonosov Moscow State University with honors (Economics). PhD in Economics.

From 2003 – President – Chairman of the Management Board of VTB Bank.
From 2006 – member of the Board of Directors of Rosneft.

Alexander Nekipelov

Independent member of the Board of Directors of Rosneft, Chairman of the Strategic Planning Committee

Born in 1951. In 1973, graduated from Lomonosov Moscow State University (Economics). PhD in Economics.

From 2003 – Vice-President of the Russian Academy of Sciences.
From 2006 – member of the Board of Directors of Rosneft.

Kirill Androsov

Member of the Board of Directors of Rosneft, member of the Audit Committee

Born in 1972. In 1994, graduated from Saint-Petersburg Naval Technical University (Engineering, Economics). PhD in Economics.
In 2005, received an MBA from the Graduate Business School, University of Chicago.

From 2003 to 2004 – First Deputy General Director of Lenenergo.
From 2004 to 2005 – Director of Department of State Regulation of Tariffs and Infrastructure Reforms of the Ministry of Economic Development and Trade of the Russian Federation.
From 2005 – Deputy Minister of Economic Development and Trade of the Russian Federation.
From 2004 – member of the Board of Directors of Rosneft.

Sergey Naryshkin

Deputy Chairman of the Board of Directors of Rosneft, member of the HR and Remuneration Committee.

Born in 1954. In 1978, graduated from Leningrad Mechanical Institute. Received his second higher education at Saint-Petersburg International Institute of Management (Economics). PhD in Economics.

From 2003 to 2004 – Chairman of the Foreign Economic and International Relations Committee of the Leningrad region government.
In 2004 – Deputy Head of the Economics Department of the President of the Russian Federation.
In 2004 – Deputy Head of the Executive Office of the President of the Russian Federation.
From 2004 to 2007 – Head of the Executive Office of the President of the Russian Federation – Minister of the Russian Federation.
From 2007 – Deputy Prime Minister of the Russian Federation – Head of the Executive Office of the President of the Russian Federation.
From 2004 – member of the Board of Directors of Rosneft.

Gleb Nikitin

Deputy Chairman of the Board of Directors of Rosneft, member of the Strategic Planning Committee

Born in 1977. In 1999, graduated from Saint-Petersburg University of Economics and Finance. In 2004, graduated from Saint-Petersburg State University (Law). PhD in Economics.

From 2003 to 2004 – Head of State Property Management Department, Saint-Petersburg Committee for State Property Management.
From 2004 to 2007 – Head of Department for Commercial Sector Property Management, Federal Agency for Federal Property Management.
From 2007 – Deputy Head of the Federal Agency for Federal Property Management.
From 2006 – member of the Board of Directors of Rosneft.

Andrey Reus

Member of the Board of Directors of Rosneft, member of the Strategic Planning Committee

Born in 1960. In 1983, graduated from Lomonosov Moscow State University. PhD in Economics.

From 2002 to 2004 – Head of Office of Deputy Prime Minister of the Russian Federation.
From 2004 to 2007 – Deputy Minister of Industry and Energy of the Russian Federation.
From 2007 – General Director of OBORONPROM.
From 2004 – member of the Board of Directors of Rosneft.

In 2007, no changes took place in the composition of Rosneft's Board of Directors.

Board of Directors' Activity in 2007

Activity of the Board of Directors and the Committees of the Board of Directors

Attendance at meetings in 2007

Name	Board of Directors	Audit Committee	HR and Remuneration Committee	Strategic Planning Committee
Igor Sechin	9/9			
Sergey Bogdanchikov	9/9			
Hans-Joerg Rudloff	9/9	11/11	5/5	
Andrey Kostin	9/9	11/11	5/5	
Alexander Nekipelov	9/9			3/3
Kirill Androsov	9/9	11/11		
Sergey Naryshkin	9/9		5/5	
Gleb Nikitin	9/9			3/3
Andrey Reus	9/9			3/3

Note: the first figure shows the number of meetings which a member of the Board of Directors attended, the second one shows the total number of meetings which the member could have attended

In 2007, the Board of Directors of Rosneft issued 11 instructions to the Company's Management Board. All of them were carried out.

The Board of Directors held nine meetings in 2007 (six – in presence form, three – in absence form) where the following key issues were discussed and respective decisions made:

Operating and Financial Performance

The Board of Directors approved preliminary operating and financial results of the Company for 1H 2007, and amended the 2007 business plan accordingly. The Board of Directors also reviewed the Company's operating and financial results for 12M 2007, and approved an operating and financial plan for 2008. In addition, various issues of regulating Rosneft's relations with state budget at all levels were discussed.

Accounts Payable

With respect to the Company's fundraising activities, the Board of Directors approved the respective transactions as well as the issue and placement of Rosneft's bonds.

Enhancement of the Corporate Governance System

The Board of Directors introduced amendments and supplements to the Code of Corporate Governance and the Regulation on Corporate Secretary.

The Board of Directors also recommended the Annual General Shareholders' Meeting to make decisions on the amounts of bonuses to the independent members of the Board of Directors, and compensations to the members of the Board of Directors.

Management Board

The Management Board of Rosneft consists of eight members.
The Management Board as of December 31, 2007

Sergey Bogdanchikov

President of Rosneft, Chairman of the Management Board of Rosneft

Born in 1957. In 1981, graduated from Ufa Petroleum Institute with honors. Doctor of Engineering and author of several scientific publications.

From 1993 – General Director of Sakhalinmorneftegaz. From 1997 – Vice-President of Rosneft. On October 14, 1998, appointed President of Rosneft by the Russian Government's Resolution.

Sergey Kudryashov

First Vice-President of Rosneft

Born in 1967. In 1991, graduated from Kuibyshev Polytechnic Institute.
In 2006, received an MBA from Stockholm School of Economics.

From 2003 to 2005 – General Director of Yuganskneftegaz, Vice-President of CJSC YUKOS EP.
From 2005 – First Vice-President of Rosneft, responsible for production operations.

Anatoly Baranovsky

Vice-President of Rosneft

Born in 1942. In 1967, graduated from Bauman Moscow High Technical College. PhD in Economics.

From 2003 – Vice-President of Rosneft, responsible for treasury and budget issues, current assets, and fiscal regulation.

Stepan Zemlyuk

Vice-President of Rosneft

Born in 1959. In 1984, graduated from Lvov Polytechnic Institute.

From 2003 to 2004 – Vice-President of Rosneft – General Director of Purneftegaz.
From 2004 – Vice-President of Rosneft, responsible for construction projects.

Changes took place in the composition of Rosneft's Management Board in 2007. Deputy Chairman of the Management Board Nikolay Borisenko resigned effective as of March 16, 2007 to take another job. Early termination of employment was approved at the meeting of the Company's Board of Directors as of May 22, 2007 (Minutes No. 4); Rosneft's Vice-President Sergey Karaganov was elected to the Management Board.

Sun Ne Kim

Chief Accountant of Rosneft

Born in 1951. In 1972, graduated from Irkutsk Institute of National Economy.

From 2003 – Chief Accountant of Rosneft.

Peter O'Brien

Vice-President of Rosneft

Born in 1969. In 1991, received a Bachelor's degree from Duke University.
In 2000, received an MBA from Columbia University.

From 2003 to 2005 – Vice-President of Morgan Stanley (Moscow).
From 2005 to 2006 – Executive Director, Co-Head of Investment Banking in Russia, Head of CIS Fuel and Energy Group at Morgan Stanley (Moscow).
From 2006 – Vice-President of Rosneft, responsible for strategic investment projects, debt and equity fundraising.

Rizo Tursunov

Vice-President of Rosneft

Born in 1947. In 1970, graduated from Moscow Institute of Electromechanics.

From 2003 – Vice-President of Rosneft.

Sergey Karaganov

Vice-President of Rosneft

Born in 1958. In 1981, graduated from Khabarovsk Polytechnic Institute. In 1998, received the second higher education at Khabarovsk State Technical University.

From 2003 to 2006 – HR Director at Rosneft.
From 2006 – Vice-President of Rosneft, responsible for HR and social policies, corporate culture, and internal communications.

Information on the Shares Directly Held by the Members of the Board of Directors and the Management Board (as of December 31, 2007)

Members of the Board of Directors and Management Board of Rosneft Oil Company	Number of ordinary shares	Share in authorized capital, %
Kirill Androsov	-	-
Sergey Bogdanchikov	126,672	0.0012%
Andrey Kostin	-	-
Sergey Naryshkin	-	-
Alexander Nekipelov	-	-
Gleb Nikitin	-	-
Andrey Reus	-	-
Hans-Joerg Rudloff	662,500	0.0063%
Igor Sechin	-	-
Anatoly Baranovsky	265,695	0.0025%
Peter O'Brien	50,000 GDR	0.0005%
Stepan Zemlyuk	168,000	0.0016%
Sergey Karaganov	-	-
Sun Ne Kim	66,423	0.0006%
Sergey Kudryashov	132,847	0.0013%
Rizo Tursunov	-	-

Committees of the Board of Directors

In 2007, the Committees of the Board of Directors for Audit, HR and Remuneration, and Strategic Planning were engaged in the preliminary consideration of many significant issues and preparation of respective recommendations to the Board of Directors.

The formation and activities of the Committees of the Board of Directors are carried out in compliance with the Regulation on the Procedure of Formation and Operation of the Committees of the Board of Directors of Rosneft, the Regulation on the Audit Committee of the Board of Directors of Rosneft, the Regulation on the HR and Remuneration Committee of the Board of Directors of Rosneft, and the Regulation on the Strategic Planning Committee of the Board of Directors of Rosneft.

The Committees comprise non-executive members of the Board of Directors and are headed by independent directors.

Composition of the Committees for the review period was approved by the respective decisions of the Board of Directors of Rosneft in June 2006 and in June 2007.

Audit Committee of the Board of Directors

Members of the Audit Committee: Hans-Joerg Rudloff (Chairman), Kirill Androsov, Andrey Kostin.

The Committee is responsible for evaluation of Rosneft's nominee auditors, audit reports, and the efficiency of internal control procedures. It also drafts proposals on improvement of internal control procedures.

In addition, the Audit Committee evaluates the quality of audit services provided to Rosneft and the auditor's compliance with independence requirements, controls the accuracy and integrity of statutory and management accounting, and performs other functions as stipulated by the Regulation on the Audit Committee of the Board of Directors of Rosneft.

The Audit Committee ensures ongoing interaction among the Board of Directors, Rosneft auditors, the Internal Audit Committee, executive bodies, financial management, and internal control functions.

HR and Remuneration Committee of the Board of Directors

Members of the HR and Remuneration Committee: Andrey Kostin (Chairman), Sergey Naryshkin, Hans-Joerg Rudloff.

The main functions of the HR and Remuneration Committee are: HR policy formation, regulation of compensation and performance incentive matters, development of principles and criteria of establishing the amount of remuneration and compensation to the members of the Board of Directors and the Management Board of Rosneft, and development of long-term remuneration programs for the Company's employees (bonuses and optional forms of remuneration).

The members of the HR and Remuneration Committee may not participate in the evaluation of their own performance and decision-making regarding their remuneration.

To ensure continuous cooperation of the Board of Directors with the structural division responsible for implementation of the Company's HR policy, the Committee and Rosneft's HR department perform preliminary evaluation of candidates to the positions of Vice-President, Chief Accountant, Financial Director, R&D Director as well as preliminarily approve forms and amounts of bonuses, compensations and other payments to such persons.

Strategic Planning Committee of the Board of Directors

Members of the Strategic Planning Committee: Alexander Nekipelov (Chairman), Gleb Nikitin, Andrey Reus.

The Strategic Planning Committee determines strategic objectives and key development areas for Rosneft. The Committee's main function is preliminary approval of short- and long-term operating and financial plans for the Company.

The Strategic Planning Committee together with the Company's executive bodies elaborate and submit for approval to the Board of Directors policies aimed at increasing Rosneft's capitalization; establish the Company's investment, marketing, dividend, credit, holding policies and the policy regarding Rosneft's non-core assets; and evaluate the efficiency of interaction between the Company and its investors.

Activities of the Committees of the Board of Directors of Rosneft in 2007

Audit Committee

In the review period, the Audit Committee operated in accordance with its plan for 2007. The Audit Committee held 11 meetings in 2007.

The Audit Committee reviewed the project to establish an integrated system of performance indicators, financial reporting and reference data as well as the corporate risk management system. The Committee also reviewed the opinions of the Internal Audit Committee of Rosneft on the results of audit of the Company's financial and economic activities in 2006, on the results of audit of the annual financial statements of Rosneft for 2006, and on the reliability of data presented in the Company's annual report for 2006.

The Audit Committee also evaluated the opinion of Rosneft auditor, reviewed the Company's consolidated financial statements for 2006 under US GAAP and interim consolidated financial statements of Rosneft for three and six months of 2007 under US GAAP, reviewed the results of the audit tender held by Rosneft and approved auditors to audit the 2006 statutory accounts of Rosneft and its subsidiaries under RAS and US GAAP as well as the respective fees.

In addition, the Audit Committee approved the schedule for implementing measures aimed at improving the efficiency of the Company's internal control system and reviewed progress in the implementation of such measures, reviewed progress in the development of the project of financial reporting fast-close, and approved the concept of restructuring the Company's accounting function.

The Audit Committee made a number of recommendations to the Board of Directors with respect to:

- determining prices of related-party transactions and approving such transactions
- determining prices of material transactions and approving such transactions
- preliminary approval of the Company's annual report for 2006 and annual financial statements for 2006, including the profit and loss statement
- recommendations to the General Shareholders' Meeting on the amount of dividends and payment procedure, as well as profit distribution based on performance in fiscal year 2006
- the corporate risk management system

HR and Remuneration Committee

In the review period, the HR and Remuneration Committee operated in accordance with its plan for 2007. The HR and Remuneration Committee held five meetings in 2007.

The HR and Remuneration Committee prepared recommendations to the Board of Directors with respect to the payment procedure and amounts of compensations and bonuses to the independent members of the Board of Directors, on early termination of employment of a Management Board member and election of a Management Board member, on the Management Board members holding positions at other legal entities, on the amount of performance bonuses in 1H 2007 to the President, First Vice-President, and Vice-Presidents including the Vice-President for Finance, Chief Accountant, Financial Director, and R&D Director.

The HR and Remuneration Committee also approved salary increases for the Vice-Presidents, Chief Accountant, and Financial Director of Rosneft based on their performance in 2006, as well as programs to develop the system of corporate pension coverage in 2006 and the years to follow.

Strategic Planning Committee

In the review period, the Strategic Planning Committee operated in accordance with its plan for 2007. The Strategic Planning Committee held three meetings in 2007.

The Strategic Planning Committee prepared recommendations to the Board of Directors on approval of the plan of the Company's financial and economic activities in 2008, on amending Rosneft's business plan for 2007, on the issue of bonds, and on the regulation of Rosneft's relations with budgets of all levels.

In addition, the Strategic Planning Committee approved the policy for cooperation with the Company's shareholders and investors in 2008.

The activities of the Committees for Audit, HR and Remuneration, and Strategic Planning in 2007 were positively evaluated by the Board of Directors (Minutes No. 1 dated March 05, 2008).

Bonuses to Members of the Board of Directors and the Management Board

On June 30, 2007, the Annual General Shareholders' Meeting of Rosneft resolved to pay the following bonuses to independent members of the Company's Board of Directors for 2006:

- Andrey Kostin – USD 200 thousand
- Alexander Nekipelov – USD 185 thousand
- Hans-Joerg Rudloff – USD 200 thousand

A decision was also made to reimburse the members of the Board of Directors for all expenses attributable to their service on Rosneft's Board of Directors.

The members of the Board of Directors of Rosneft, who are government officials, are not compensated for their service on the Board of Directors.

The members of Rosneft's Management Board receive salaries as stipulated by the respective labor contracts, and are not entitled to bonuses for their service on the Management Board.

Authorized Capital

The authorized capital of Rosneft as of December 31, 2007 is RUB 105,981,778.17 and is divided into 10,598,177,817 ordinary shares with a par value of RUB 0.01.

The state registration number of issue of ordinary shares of the Company is 1-02-00122-A.

The date of state registration of issue of ordinary shares of the Company is September 29, 2005.

The number of shareholders registered in the shareholder register of Rosneft as of December 31, 2007 is 36,964 (including 20 nominee shareholders). The number of nominee shareholders has not changed as compared to December 31, 2006.

As of December 31, 2007, Rosneft had no preferred shares.

Structure of Rosneft Equity

List of the Largest Shareholders of Rosneft

	As of December 31, 2006		As of December 31, 2007	
Shareholder	Number of shares	Share in authorized capital, %	Number of shares	Share in authorized capital, %
ROSNEFTEGAZ	7,965,816,383	75.16	7,965,816,383	75.16
NK YUKOS	1,000,000,000	9.44	-	-
Sberbank of Russia (nominee shareholder)	1,034,133,827	9.76	1,210,564,190	11.42
RN-Razvitie*	-	-	1,000,000,000	9.44
Vneshekonombank (nominee shareholder)	332,119,664	3.13	-	-
Non-profit partnership National Depositary Center (nominee shareholder)	-	-	228,681,153	2.16
Other legal entities holding less than 1% of shares	197,126,186	1.86	129,897,225	1.22
Individuals	68,981,757	0.65	63,218,866	0.60
Total	10,598,177,817	100.00	10,598,177,817	100.00

* RN-Razvitie is a wholly owned subsidiary of Rosneft. Accordingly, Rosneft's shares owned by RN-Razvitie are shown as treasury stock in the Company's consolidated financial statements under US GAAP.

In 2006 and 2007, the Russian Government held more than 75% of Rosneft's equity through OJSC ROSNEFTEGAZ, which is wholly owned by the Government. The Russian Government's direct share in Rosneft's equity was 0.000000009%.

Rosneft's management has no information about any shareholders with equity stakes exceeding 5% (shareholders of Rosneft with equity stakes exceeding 5% of total issue), other than those listed above.

No issues and/or placements of additional shares of the Company were carried out in the review period.

On March 27, 2007, LLC RN-Razvitie, a wholly owned subsidiary of Rosneft, won an auction of several Yukos assets, including a 9.44% stake in the Company (1.0 bln shares) that was purchased for USD 7.52 bln, or USD 7.52 per share, at the CBR exchange rate as of the transaction date. Title to the shares was transferred to RN-Razvitie on April 17, 2007. The shares are shown as treasury stock in Rosneft's consolidated financial statements under US GAAP.

Rosneft's shares are traded on the RTS and MICEX stock exchanges.

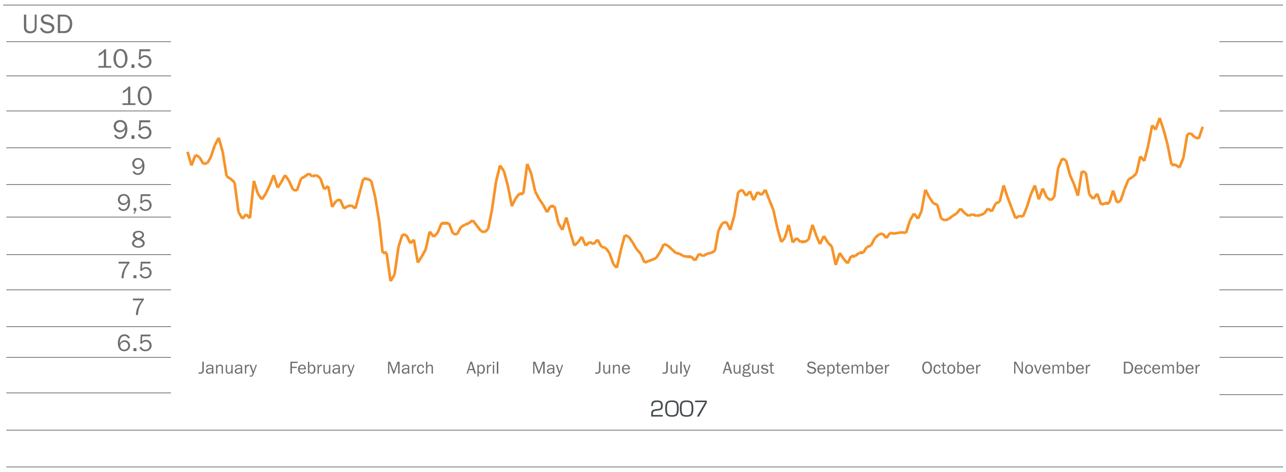
At the beginning of 2007, in compliance with the established decision-making procedure in the securities market, Rosneft's shares were promoted from Quotation List C to Quotation List B both on RTS and MICEX.

Rosneft's securities also circulate outside Russia. In July 2006, Rosneft carried out a Global Depositary Receipts program. The depositary bank is J.P. Morgan Europe Limited. GDRs are traded on the London Stock Exchange and certify the rights with respect to Rosneft's registered common shares. One GDR is equivalent to one registered common share of Rosneft. As of year-end 2007, GDRs were issued for 1,036 mln ordinary shares (9.8% of the total).

Global economic downturn and domestic political factors resulted in highly volatile prices of Rosneft shares in 2007, with a total annual growth of only 4.6%. Nevertheless, the Company has the potential to further drive shareholder value.

Dynamics of Rosneft share quotes in 2007 (USD per share)

GDR quote dynamics, London Stock Exchange

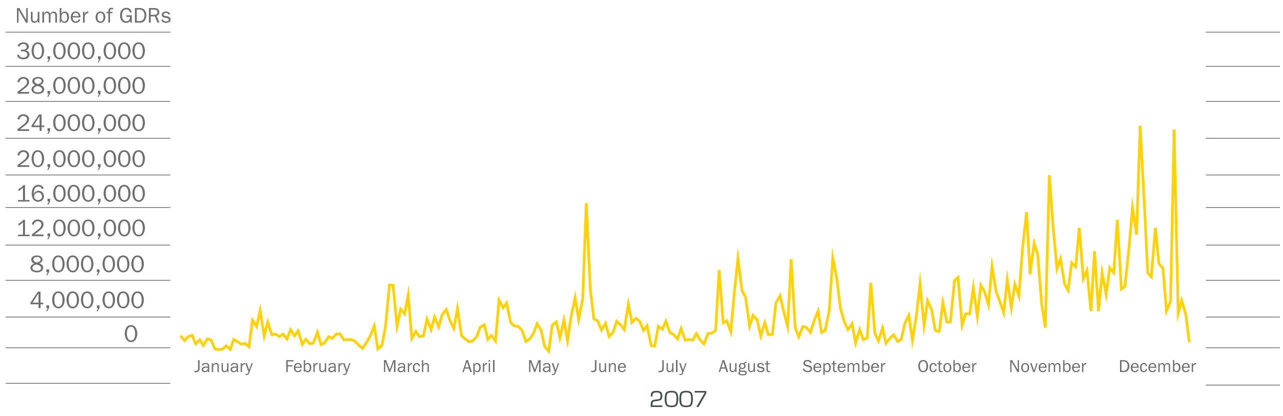


Share quote dynamics, RTS

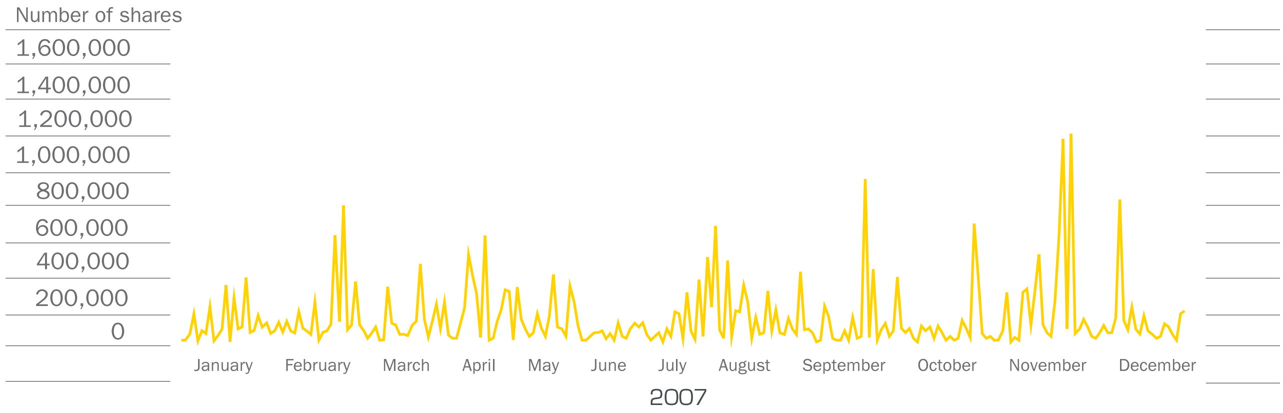
Share quote dynamics, MICEX

GDR and share trade volumes in 2007

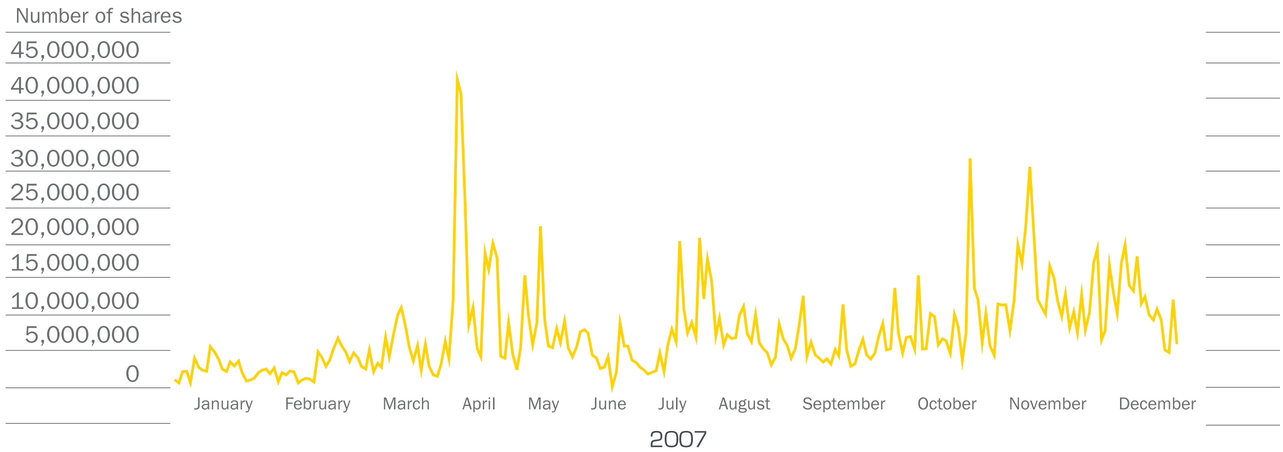
London Stock Exchange



RTS



MICEX



Dividend Policy

In May 2006, Rosneft's Board of Directors voted to adopt the Regulation on Dividend Policy, developed in accordance with Russian legislation, the Company's Charter, and the Code of Corporate Governance. The Regulation sets out the main principles of Rosneft's dividend policy, decision-making on declaring and paying out dividends as well as calculation of their amount.

Rosneft's dividend policy is aimed at striking a balance between shareholders' interests and the Company's business needs. Rosneft strictly observes shareholder rights and constantly strives to bring higher value to all parties involved. The Board of Directors recommends the amount of dividend payments to the Annual General Shareholders' Meeting on the basis of the Company's annual financial results under RAS. In accordance with Rosneft's dividend policy, dividend payment should be no less than 10% of annual net income under RAS adjusted for extraordinary gains and losses.

Rosneft pursues a balanced strategy aimed at continuously increasing dividend payments in absolute terms. In determining the amount of annual dividend, the Board of Directors takes into account dividend payment practices of other oil and gas companies. In any given year, several factors may affect Rosneft's determination of dividend amount, including the Company's business prospects, cash requirements, and financial performance, market situation and general economic climate, as well as other factors, including tax and other regulatory considerations.

Rosneft informs shareholders of its dividend policy by placing information for download on the corporate website: www.rosneft.ru (Russian version) and www.rosneft.com (English version).

Dividend History of Rosneft

Year	Dividend per share, RUB	Dividend payout ratio, (US GAAP, adjusted*)
2003	0.1650	13.4%
2004	0.1931	7.3%
2005	1.25	12.9%
2006	1.33	13.9%
2007	1.60	10.3%

* Earnings per share are adjusted for extraordinary items such as net gain from Yukos bankruptcy, etc. Dividends are translated from RUB to USD at the CBR exchange rate as of the date of the Annual General Shareholders' Meeting.

On April 25, 2008, Rosneft's Board of Directors recommended the Annual General Shareholders' Meeting to approve an increase of annual dividends for 2007 by 20% to RUB 1.6 per share. On June 5, 2008, the Annual General Shareholders' Meeting approved the dividends recommended by the Board of Directors in the amount of RUB 1.6 per share (6.72 cents at the CBR exchange rate as of the date of the Annual General Shareholders' Meeting). Total amount of dividends (for all issued ordinary shares) for 2007 is RUB 16,957 mln (USD 712 mln at the CBR exchange rate as of the date of the Annual General Shareholders' Meeting). The dividend payout ratio determined on the basis of earnings per share under US GAAP adjusted for extraordinary items amounts to 10.3%.

The Board of Directors recommends the amount of dividend payments to the General Shareholders' Meeting on the basis of Rosneft's financial results under RAS

Information Disclosure

In the area of information disclosure, Rosneft is governed by the requirements of the Federal Law On Securities Market, the Federal Law On Joint-Stock Companies, the regulation on information disclosure by issuers of securities, approved by the Order of the Federal Financial Markets Service dated October 10, 2006 No. 06-117/pz-n, and other regulatory acts.

Rosneft's information disclosure policy is based on the principles of regularity, efficiency, accessibility, integrity, and meaningfulness.

In May 2006, the Company's Board of Directors adopted the Regulation on Information Disclosure Policy, based on which information is accessible to shareholders and all individuals concerned, regardless of reasons for obtaining such information, by following a procedure ensuring that all required data are made available.

The main disclosure mechanism is Rosneft's website, which contains relevant information on key facts and events, management structure, as well as the Company's operating and financial results.

Rosneft's website also contains the Company's Charter and internal regulations, annual and quarterly reports, financial statements (consolidated and interim), information on affiliated persons and other data that can affect the value of the Company's securities.

Rosneft also provides information in the form of brochures, booklets, press releases, as well as at press conferences and meetings with shareholders, investors, and other individuals.

The Company strictly complies with legislative requirements concerning shareholders' access to required information.

Constantly striving to optimize information disclosure and consolidated reporting, in 2007, Rosneft completed a comprehensive fast-close reporting project, RosA, that now covers more than 300 of the Company's business units. RosA allows preparation of unaudited consolidated management accounts under US GAAP and RAS on the 30th calendar day after the end of a reporting period, which gives Rosneft a strong competitive advantage over its national rivals. During the past five years, Rosneft's US GAAP financial statements were audited by Ernst & Young LLC, one of the Big Four firms.

Rosneft holds regular press conferences and meetings with shareholders and others to efficiently share business information

Code of Corporate Governance

In May 2006, Rosneft's Board of Directors voted to adopt the Code of Corporate Governance, which sets out key principles of the Company's corporate governance system. The Code was developed in accordance with the Federal Law On Joint-Stock Companies, the sample Code of Corporate Governance recommended by the Federal Financial Markets Service, the Principles of Corporate Governance of the Organization for Economic Cooperation and Development (OECD), and Rosneft's Charter.

The Code's provisions reflect global best practices in the area of corporate governance, including the protection of rights and equal treatment of all shareholders; timely disclosure of relevant information, including the Company's financial position, performance indicators, ownership structure and governance; strategic management of the Company and efficient control over activities of its executive bodies; and, accountability of the Company's Board of Directors to the General Shareholders' Meeting.

In May 2007, Rosneft's Board of Directors approved amendments and supplements to the Code of Corporate Governance concerning the Corporate Secretary's support of the Board of Directors' activities.

Internal Control

Control over Rosneft's operating and financial performance is exercised by the Internal Audit Committee, the Audit Committee, and the Audit Department.

Structure and Authority of the Internal Audit Committee

Control over Rosneft's operating and financial performance is carried out by the Internal Audit Committee, which is elected by the General Shareholders' Meeting for one year and consists of five members. Members of the Internal Audit Committee may not at the same time serve as members of the Board of Directors or hold other positions in the Company's management bodies. Audits of Rosneft's operating and financial performance are mandatory and performed based on the Company's annual results, and additionally at the discretion of the Internal Audit Committee, the General Shareholders' Meeting, and the Board of Directors or at the request of shareholders holding at lease 10% of the voting shares. The authority of the Internal Audit Committee on the issues not stipulated by the Company's Charter is governed by the Regulation on the Internal Audit Committee, which was approved by the General Shareholders' Meeting of Rosneft on June 7, 2006. The Internal Audit Committee shall perform an annual audit of the Company within 60 days after the end of the respective fiscal year.

The Internal Audit Committee is responsible for:

- auditing the Company's financial documents and statutory accounts; inspecting official opinions of the Property Inventory Commission; comparing financial documents with original accounting data
- analyzing accuracy and consistency of statutory, management, tax, and statistical accounting
- verifying the Company's compliance with the operating and financial plans approved by the Board of Directors
- verifying the Company's compliance with the profit distribution procedure for the respective accounting period, approved by the General Shareholders' Meeting


РОСНЕФТЬ

- analyzing the Company's financial position, solvency and liquidity, leverage, net assets and authorized capital; identifying opportunities to improve the Company's performance; developing recommendations for the Company's management bodies
- verifying the timeliness and accuracy of payments to suppliers, payments to the budget and non-budget funds, accrual and payment of dividends and bond interest, as well as settlement of other liabilities
- confirming the accuracy of data contained in the Company's annual report(s), annual accounting statements, and reports prepared for tax authorities, statistics services, and governmental agencies
- verifying the legitimacy of the Company's sole executive body entering into agreements on behalf of Rosneft
- verifying the legitimacy of decisions made by the Board of Directors, the sole executive body, the Liquidation Committee; verifying the compliance of such decisions with the Company's Charter and resolutions of General Shareholders' Meetings
- verifying the compliance of resolutions of General Shareholders' Meetings with applicable legislation and the Company's Charter

The Internal Audit Committee is also authorized to:

- request that explanations be provided by any member of the Company's Board of Directors or any Rosneft employee with respect to issues within the authority of the Internal Audit Committee
- raise issues within Rosneft's management bodies with respect to responsibility of the Company's officers and other employees in cases of violation of the Charter, internal procedures and instructions, as well as other regulations of the Company

In accordance with the adopted plan, the Internal Audit Committee performed four audits of the Company and prepared a confirmation of the accuracy of data contained in the Annual Report for the Annual General Shareholders' Meeting.

Members of the Internal Audit Committee:

Andrey Kobzev – Chairman of the Internal Audit Committee

Year of birth: 1971

Education: higher

Organization: Federal Energy Agency of the Russian Federation

Position: Deputy Head of Fuel and Energy Sector Legal Support and Property Affairs Division

Victoria Oseledko – Member of the Internal Audit Committee

Year of birth: 1976

Education: higher

Organization: Ministry of Industry and Energy of the Russian Federation

Position: Deputy Director of State Industrial Policy Department

Yury Pisarev – Secretary of the Internal Audit Committee

Year of birth: 1953

Education: higher

Organization: OJSC Rosneft Oil Company

Position: Head of Audit Department

Natalya Radkova – Member of the Internal Audit Committee

Year of birth: 1963

Education: higher

Organization: Ministry of Industry and Energy of the Russian Federation

Position: Head of Accounting and Reporting Section of Department for Budget Policy and Finance

Lev Feodosiev – Member of the Internal Audit Committee

Year of birth: 1976

Education: higher

Organization: OJSC NOVATEK

Position: Head of Business Development and Strategic Planning Department

Audit Committee

Within the authority delegated by the Board of Directors, the Audit Committee:

- ensures constant interaction of the Board of Directors with an auditor, an independent appraiser, the Internal Audit Committee, the Audit Department, executive bodies, and financial management
- determines the amount of audit fees, evaluates the quality of audit services and the auditor's compliance with independence requirements
- controls the accuracy and integrity of Rosneft's tax, statutory, and management accounting
- makes recommendations to the General Shareholders' Meeting with respect to distribution of profit and loss based on the fiscal year results, as well as the amount of dividends and their payment procedure
- evaluates the property of the Company, as well as placement and repurchase of securities as provided by the Federal Law On Joint-Stock Companies
- approves material transactions as provided by Chapters 10 and 11 of the Federal Law On Joint-Stock Companies
- develops and approves internal control procedures in close cooperation with the Company's executive bodies and the structural unit responsible for internal control
- reviews the results of audits and inspections of the Company's operating and financial performance
- reviews proposals and recommendations on crisis management

Structure and Authority of the Audit Department

Rosneft's Audit Department is responsible for:

- establishment of an integrated system of comprehensive control over financial and economic activities of Rosneft's divisions, representative offices, and subsidiaries
- performance of comprehensive and targeted audits of production and financial activities of the Company's divisions, representative offices, and subsidiaries with participation of relevant experts and members of internal audit committees and audit subdivisions
- facilitation of quality and timely implementation of decisions made by the Company's Board of Directors, the Management Board, and the President; review of applications from Rosneft's subsidiaries and structural divisions on the issues within the authority of the Audit Department, as well as control over execution of the respective decisions
- assessment, classification, and minimization of potential risks arising in the course of the Company's operations
- cooperation with the Audit Committee and provision of information on the state of the Company's internal control
- methodological support of control and internal audit committees as well as other relevant divisions of Rosneft's subsidiaries

The Audit Department reports to the Audit Committee of the Board of Directors and the Companies' executive bodies, which is in line with global best practices and current international requirements to audit activities. This ensures independence of the Audit Department in executing its tasks and authority.

The results of audits and inspections are submitted for review to Rosneft President as the Chairman of the Management Board and a member of the Company's Board of Directors. Recommendations on the best ways to cope with the identified violations and deficiencies as well as to mitigate associated risks are developed in close collaboration with heads of the Company's divisions.

The Audit Department reports on its performance and measures to improve internal control to the Company's Management Board on an annual basis.

Head of the Audit Department participates in all meetings of the Audit Committee and presents quarterly reports on the Department's activities and performance, as well as the overall state of internal control.

The Audit Department actively cooperates with independent auditors to ensure higher efficiency of Rosneft's audit and control procedures.


.310 .325 70 .310 PUNCA
.095 .120 60 .000 QSR-W
.045 .060 370 .000 RUBER
.080 .215 200 .000 RUBER
.010 .015 8260 .015 SALCO
.060 .110 102 .000 SAPCR
.070 .000 0 .000 SHCHA
.130 .140 619 .135 SILVE

Appendix 1


250 .780 .850 260
206 .330 .375 65
175 .630 .760 150
100 .210 .380 119
100 .320 .600 535
10 .535 .540 470
220 .050 .200 10

Report of Independent Auditors

Shareholders and the Board of Directors
of OJSC Oil Company Rosneft

We have audited the accompanying consolidated balance sheets of OJSC Oil Company Rosneft, an open joint stock company ("the Company"), as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

As discussed in Note 3 to the consolidated financial statements, the Company has not presented pro-forma results of operations for the years 2005, 2006 and 2007 as though its significant acquisitions had been completed as of January 1, 2005. These disclosures are required by SFAS No. 141 "Business Combinations".

In our opinion, except for the effects of the matters described in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

/s/ Ernst & Young LLC
ERNST & YOUNG LLC

April 7, 2008

Consolidated Balance Sheets

(in millions of US dollars, except share amounts)

		As of December 31,	
ASSETS	Notes	2007	2006
Current assets:			
Cash and cash equivalents	5	998	505
Restricted cash	5	34	18
Short-term investments	6	338	460
Accounts receivable, net of allowance	7	9,785	4,850
Inventories	8	1,926	905
Current deferred tax assets	20	156	1,135
Prepayments and other current assets	9	1,731	1,589
Total current assets		14,968	9,462
Non-current assets:			
Long-term investments	10	2,646	568
Long-term bank loans granted, net of allowance of $20 and $6, respectively		260	110
Property, plant and equipment, net	11, 12	51,686	35,945
Goodwill	13	3,789	161
Intangible assets	13	285	7
Non-current deferred tax assets	20	57	110
Other non-current assets	14	1,114	427
Total non-current assets		59,837	37,328
Total assets		74,805	46,790
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	15	4,035	1,998
Short-term debt	16	15,550	6,427
Income and other tax liabilities	18	2,346	2,472
Deferred tax liabilities	20	118	17
Other current liabilities		75	20
Total current liabilities		22,124	10,934
Non-current liabilities:			
Asset retirement obligations	21	2,130	748
Long-term debt	16	11,723	7,402
Deferred tax liabilities	20	7,626	5,446
Other non-current liabilities	23	2,485	160
Total non-current liabilities		23,964	13,756
Minority interest		277	225
Shareholders' equity:			
Common stock par value 0.01 RUB (shares outstanding: 9,598 million and 10,598 million as of December 31, 2007 and 2006, respectively)	17	20	20
Treasury shares (at acquisition cost: 1,000 million and nil shares as of December 31, 2007 and 2006, respectively)		(7,521)	–
Additional paid-in capital		13,075	11,352
Retained earnings		22,866	10,503
Total shareholders' equity		28,440	21,875
Total liabilities and shareholders' equity		74,805	46,790

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

Consolidated Statements of Income

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

		For the years ended December 31,		
	Notes	2007	2006	2005
Revenues				
Oil and gas sales	24	29,902	23,499	16,152
Petroleum products and processing fees	24	18,531	9,250	7,374
Support services and other revenues		783	350	337
Total		49,216	33,099	23,863
Costs and expenses				
Production and operating expenses		3,870	2,197	1,623
Cost of purchased oil, gas, petroleum products and refining costs		1,610	1,320	637
General and administrative expenses		1,341	757	589
Pipeline tariffs and transportation costs		4,226	3,226	2,231
Exploration expenses		162	193	164
Depreciation, depletion and amortization		3,286	1,638	1,472
Accretion expense		78	34	35
Taxes other than income tax	20	10,890	6,990	5,326
Export customs duty	19	13,032	11,140	6,264
Total		38,495	27,495	18,341
Operating income		10,721	5,604	5,522
Other income/(expenses)				
Interest income		214	135	81
Interest expense		(1,470)	(724)	(775)
Loss on disposal of property, plant and equipment		(119)	(95)	(74)
Gain/(loss) on disposal of investments		36	3	(13)
Gain on sale of shares in CJSC Sevmorneftegaz		–	–	1,303
Equity share in affiliates' profits	10	23	17	51
Dividends and income from joint ventures		18	15	10
Gain from Yukos Oil Company bankruptcy proceedings	7	8,970	–	–
Other expenses, net		(195)	(320)	(136)
Foreign exchange gain/(loss)		(409)	(470)	245
Total other income/(expenses)		7,068	(1,439)	692
Income before income tax and minority interest		17,789	4,165	6,214
Income tax expense	20	(4,906)	(540)	(1,609)
Income before minority interest		12,883	3,625	4,605
Minority interest in subsidiaries' earnings, net of tax		(21)	(92)	(446)
Net income		12,862	3,533	4,159
Net earnings per share (in US$) – basic and diluted		1.30	0.37	0.46
Weighted average number of shares outstanding (millions)		9,891	9,527	9,092

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

Consolidated Statements of Changes in Shareholders' Equity
for the years ended December 31, 2007, 2006 and 2005

(in millions of US dollars, except share amounts)

	Number of shares (millions)	Common stock	Additional paid-in capital	Treasury shares	Retained earnings	Share-holders' equity
Balance at December 31, 2004	9,092	20	19	–	3,296	3,335
Net and comprehensive income for the year	–	–	–	–	4,159	4,159
Dividends declared on common stock	–	–	–	–	(61)	(61)
Balance at December 31, 2005	9,092	20	19	–	7,394	7,433
Net and comprehensive income for the year	–	–	–	–	3,533	3,533
Ordinary shares issued during Initial Public Offering (see Note 17)	285	–	2,115	–	–	2,115
Ordinary shares issued during Share Swap (see Note 17)	1,221	–	9,218	–	–	9,218
Dividends declared on common stock	–	–	–	–	(424)	(424)
Balance at December 31, 2006	10,598	20	11,352	–	10,503	21,875
Net and comprehensive income for the year	–	–	–	–	12,862	12,862
Purchase of shares	(1,000)	–	–	(7,521)	–	(7,521)
Recognition of the financial effect of a transaction with a related party under common control (see Note 17)	–	–	1,745	–	–	1,745
Dividends declared on common stock and other distributions to shareholders	–	–	(22)	–	(499)	(521)
Balance at December 31, 2007	9,598	20	13,075	(7,521)	22,866	28,440

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

Consolidated Statements of Cash Flows

(in millions of US dollars)

		For the years ended December 31,		
	Notes	2007	2006	2005
Operating activities				
Net income		12,862	3,533	4,159
Adjustments to reconcile net income to net cash provided by operating activities:				
Effect of foreign exchange		365	392	(115)
Gain on sale of shares in CJSC Sevmorneftegaz		–	–	(1,303)
Depreciation, depletion and amortization		3,286	1,638	1,472
Dry well expenses		93	20	17
Loss on disposal of property, plant and equipment		119	95	74
Deferred income tax	20	1,058	(1,845)	(79)
Accretion expense	21	78	34	35
Equity share in affiliates' profits	10	(23)	(17)	(51)
(Gain) / loss on disposal of investments		(36)	(3)	13
Increase / (decrease) in allowance for doubtful accounts and bank loans granted		21	(10)	4
Minority interests in subsidiaries' earnings		21	92	446
Gain from Yukos Oil Company bankruptcy proceedings	7	(8,970)	–	–
Cash received from Yukos Oil Company bankruptcy receiver	7	11,007	–	–
Acquisition of trading securities		(367)	(181)	(71)
Proceeds from sale of trading securities		501	9	75
Changes in operating assets and liabilities net of acquisitions:				
Increase in accounts receivable		(4,745)	(1,192)	(1,353)
Increase in inventories		(161)	(91)	(297)
(Increase)/decrease in restricted cash		(16)	5	2
Increase in prepayments and other current assets		(444)	(231)	(626)
(Increase)/decrease in other non-current assets		(197)	(124)	6
Increase in long-term bank loans granted		(164)	(41)	(23)
Increase in interest payable		123	36	158
Increase/(decrease) in accounts payable and accrued liabilities		1,505	678	(8)
Increase/(decrease) in income and other tax liabilities		1,228	(338)	414
(Decrease)/increase in other current and non-current liabilities		(34)	131	5
Net cash provided by operating activities		17,110	2,590	2,954

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

(in millions of US dollars)

		For the years ended December 31,		
	Notes	2007	2006	2005
Investment activities				
Capital expenditures	11	(6,240)	(3,462)	(1,944)
Assets acquisitions	3	(540)	–	–
Acquisition of licences		(90)	(916)	(146)
Repayment of Sakhalin-1 carried costs		–	(1,339)	–
Proceeds from disposals of property, plant and equipment		58	27	30
Acquisition of short-term held-to-maturity securities		(219)	(277)	(622)
Acquisition of short-term available-for-sale securities		(25)	–	–
Proceeds from disposal of short-term investments, including				
Held-to-maturity securities		122	139	628
Available-for-sale securities		177	–	–
Acquisition of entities and additional shares in subsidiaries, net of cash acquired	3, 4	(17,061)	(194)	(366)
Proceeds from disposal of long-term investments, including				
Held-to-maturity securities		28	6	45
Available-for-sale securities		57	27	93
Proceeds from sale of shares in OJSC Tomskneft VNK	17	3,452	–	–
Settlement/(acquisition) of debt receivable	9	483	(463)	(20)
Acquisition of long-term investments, including				
Held-to-maturity securities		(251)	(50)	(33)
Available-for-sale securities		(46)	(11)	–
Net cash used in investing activities		(20,095)	(6,513)	(2,335)
Financing activities				
Proceeds from short-term debt		14,391	2,768	977
Repayment of short-term debt		(3,731)	(796)	(2,018)
Proceeds from long-term debt		3,435	2,887	2,547
Repayment of long-term debt		(2,598)	(3,250)	(1,829)
Proceeds from share issue, net of commission	17	–	2,115	–
Dividends paid and other distributions to shareholders		(521)	(424)	(61)
Cash paid for acquisition of treasury shares		(7,521)	–	–
Dividends paid to minority shareholders in subsidiaries		(15)	(75)	(74)
Net cash provided by/(used in) financing activities		3,440	3,225	(458)
Increase / (decrease) in cash and cash equivalents		455	(698)	161
Cash and cash equivalents at beginning of period		505	1,173	1,033
Effect of foreign exchange on cash and cash equivalents		38	30	(21)
Cash and cash equivalents at end of period		998	505	1,173
Supplementary disclosures of cash flow information				
Cash paid for interest (net of amount capitalized)		1,152	610	617
Cash paid for income taxes		4,267	2,157	1,636
Supplementary disclosure of non-cash activities				
Net assets of subsidiaries contributed by minority shareholders in exchange for shares issued by Rosneft	4	–	9,218	–
Income tax offsets		–	1	41
Non-cash capital expenditures		–	–	(32)

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

Notes to Consolidated Financial Statements

as of December 31, 2007 and 2006 and for the years ended December 31, 2007, 2006 and 2005

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

1. General

Nature of Operations

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

Rosneft State Enterprise was incorporated as an open joint stock company on December 7, 1995. All assets and liabilities previously managed by Rosneft State Enterprise were transferred to the Company at their book value effective on that date together with the Government of the Russian Federation ("State") ownership in other privatized oil and gas companies. The transfer of assets and liabilities was made in accordance with Resolution No. 971, "On the Transformation of Rosneft State Enterprise into an Open Joint Stock Company "Oil Company Rosneft", dated September 29, 1995. Such transfers represented a reorganization of assets under the common control of the State and, accordingly, were accounted for at their book value. In 2005, the State contributed the shares of Rosneft to the share capital of OJSC Rosneftegaz (see Note 17). As of December 31, 2005, 100% of the shares of Rosneft less one share were owned by OJSC Rosneftegaz and one share was owned by the Russian Federation Federal Agency for the Management of Federal Property. As of December 31, 2006 and 2007, OJSC Rosneftegaz maintains a 75.16% interest in Rosneft. The decrease in interest is attributable to sales of shares during Rosneft's Initial Public Offering ("IPO") in Russia, sales of Global Depository Receipts ("GDR") for the shares on London Stock Exchange and the share swap realized during the merger of Rosneft and certain subsidiaries during 2006 (see Note 1, Note 3 and Note 17).

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

Due to the limited capacity of OJSC Transneft's pipeline system, the State Pipeline Commission sets export quotas for each oil company based on the legislation on equal access to the oil pipeline system. In addition, the Company exports certain quantities of crude oil bypassing the Transneft system thus enabling it to increase its export capacities. In 2007, 2006 and 2005, the Company's export sales were approximately 61%, 70% and 62% of produced crude oil, respectively. The remaining production was processed at the Company's refineries and other Russian refineries for further sales on domestic and international markets.

On October 1, 2006, the Company undertook a legal reorganization whereby a number of subsidiaries were merged with OJSC Oil Company Rosneft via an exchange of shares, as approved by the respective shareholders ("Share Swap") of: OJSC Yuganskneftegaz, OJSC Rosneft-Purneftegaz, OJSC Selkupneftegaz, OJSC Severnaya Neft (Northern Oil), OJSC Rosneft-Krasnodarneftegaz, OJSC Rosneft-Stavropolneftegaz, OJSC Rosneft-Sakhalinmorneftegaz, OJSC Rosneft-Komsomolsky Refinery, OJSC Rosneft-Tuapse Refinery, OJSC Rosneft-Arkhangelsknefteproduct, OJSC Rosneft-Nakhodkanefteproduct, and OJSC Rosneft-Tuapsenefteproduct (each, a "Merging Subsidiary" and collectively, the "Merging Subsidiaries"). The primary purpose of the merger was to create a more efficient corporate and management structure with a single profit center. The Merging Subsidiaries were delisted from Unified State Register of Legal Entities from October 1, 2006. As a result of the Share Swap, OJSC Oil Company Rosneft issued its ordinary shares to the minority shareholders of the Merging Subsidiaries in exchange for ordinary and preferred shares owned by them. The shares of each Merging Subsidiary were exchanged at an agreed conversion ratio (see Note 4).

In December 2006, the Federal Tax Agency of the Russian Federation registered the increase in the Company's Share Capital resulting from the Share Swap.

Principal subsidiary companies included in the consolidated financial statements and respective ownership interests of the Company as of December 31, 2007 are as follows:

Name	Nature of Business	Preferred and Common Shares	Voting Shares
Exploration and production		%	%
RN-Yuganskneftegaz LLC	Oil and gas production operator services	100.00	100.00
RN-Purneftegaz LLC	Oil and gas production operator services	100.00	100.00
RN-Sakhalinmorneftegaz LLC	Oil and gas production operator services	100.00	100.00
RN-Krasnodarneftegaz LLC	Oil and gas production operator services	100.00	100.00
RN-Stavropolneftegaz LLC	Oil and gas production operator services	100.00	100.00
Rosneft Severnaya Neft LLC (Northern Oil)	Oil and gas production operator services	100.00	100.00
CJSC RN-Astra	Oil and gas development and production	100.00	100.00
CJSC Sakhalinmorneftegaz Shelf	Oil and gas development and production	100.00	100.00
CJSC Komsomolskneft	Oil and gas development and production	100.00	100.00
OJSC Dagneftegaz	Oil and gas development and production	81.22	94.96
OJSC Rosneft-Dagneft	Oil and gas development and production	68.70	91.60
OJSC Grozneftegaz	Oil and gas production operator services	51.00	51.00
CJSC Vostokshelf	Field survey and exploration	100.00	100.00
RN-Kazakhstan LLC	Field survey and exploration	100.00	100.00
RN-Kaiganneftegaz LLC	Field survey and exploration	100.00	100.00
CJSC Vostok-Smidt Neftegaz	Field survey and exploration	100.00	100.00
CJSC Zapad-Smidt Neftegaz	Field survey and exploration	100.00	100.00
CJSC Vankorneft	Field survey and exploration	100.00	100.00
Taymyrneft LLC	Investment activities	60.00	60.00
Vostok Smidt Invest LLC	Investment activities	100.00	100.00
Zapad Smidt Invest LLC	Investment activities	100.00	100.00
Vostok-Energy LLC	Field survey and exploration	51.00	51.00
OJSC East-Siberian Oil and Gas Company	Oil and gas development and production	70.78	70.78
Val Shatskogo LLC	Oil and gas development	100.00	100.00
OJSC Samaraneftegaz	Oil and gas development and production	100.00	100.00
Refining, marketing and distribution			
RN-Tuapse Refinery LLC	Petroleum refining	100.00	100.00
RN-Komsomolsky Refinery LLC	Petroleum refining	100.00	100.00
OJSC Rosneft-MZ Nefteproduct	Petroleum refining	65.42	87.23
OJSC Rosneft-ARTAG	Marketing and distribution	38.00	50.67

Name	Nature of Business	Preferred and Common Shares	Voting Shares
OJSC Rosneft-Altainefteproduct	Marketing and distribution	64.18	78.59
RN-Arkhangelsknefteproduct LLC	Marketing and distribution	100.00	100.00
OJSC Rosneft-Kabardino-Balkarskaya Top-livnaya Company	Marketing and distribution	88.66	92.91
OJSC Rosneft-Kubannefteproduct	Marketing and distribution	89.50	96.61
OJSC Rosneft-Karachaevo-Cherkessknefteproduct	Marketing and distribution	85.99	87.46
OJSC Rosneft-Kurgannefteproduct	Marketing and distribution	83.32	90.33
OJSC Rosneft-Murmansknefteproduct	Marketing and distribution	45.38	60.51
RN-Nakhodkanefteproduct LLC	Marketing and distribution	100.00	100.00
OJSC Rosneft-Smolensknefteproduct	Marketing and distribution	66.67	86.97
RN-Tuapsenefteproduct LLC	Marketing and distribution	100.00	100.00
OJSC Rosneft-Yamalnefteproduct	Marketing and distribution	49.52	66.03
RN-Vostoknefteproduct LLC	Marketing and distribution	100.00	100.00
OJSC Rosneft-Stavropolye	Marketing and distribution	99.49	99.49
RN-Trade LLC	Marketing and distribution	100.00	100.00
OJSC Nakhodka Oil Seatrade Port	Transshipment	97.51	97.51
CJSC Exponeft	Marketing and distribution	45.38	60.51
OJSC Angarsk Petrochemical Company	Petroleum refining	100.00	100.00
OJSC Achinsk Refinery VNK	Petroleum refining	100.00	100.00
OJSC Angarsk Polymer Plant	Petroleum refining	100.00	100.00
OJSC Kuybyshev Refinery	Petroleum refining	100.00	100.00
OJSC Novokuybyshev Refinery	Petroleum refining	100.00	100.00
OJSC Syzran Refinery	Petroleum refining	100.00	100.00
CJSC Neftegorsk Gas-Processing Plant	Gas processing	100.00	100.00
CJSC Otradny Gas-Processing Plant	Gas processing	100.00	100.00
CJSC Irkutsknefteprodukt	Marketing and distribution	100.00	100.00
OJSC Samaranefteprodukt	Marketing and distribution	100.00	100.00
Samara Terminal LLC	Marketing and distribution	100.00	100.00
OJSC Buryatnefteprodukt	Marketing and distribution	97.48	98.88
CJSC Khakasnefteprodukt VNK	Marketing and distribution	100.00	100.00
OJSC Tomsknefteprodukt VNK	Marketing and distribution	100.00	100.00
OJSC Belgorodnefteprodukt	Marketing and distribution	100.00	100.00
CJSC Bryansknefteprodukt	Marketing and distribution	100.00	100.00
OJSC Voronezhnefteprodukt	Marketing and distribution	100.00	100.00
CJSC Lipetsknefteprodukt	Marketing and distribution	100.00	100.00
CJSC Orelnefteprodukt	Marketing and distribution	100.00	100.00
CJSC Penzanefteprodukt	Marketing and distribution	100.00	100.00
CJSC Tambovnefteprodukt	Marketing and distribution	100.00	100.00
CJSC Ulyanovsknefteprodukt	Marketing and distribution	100.00	100.00
Ulyanovsk Terminal LLC	Marketing and distribution	100.00	100.00
CJSC FPK KEDR M	Marketing and distribution	100.00	100.00

Name	Nature of Business	Preferred and Common Shares	Voting Shares
CJSC NBA Service	Marketing and distribution	100.00	100.00
OJSC Germes Moskva	Marketing and distribution	85.61	85.61
CJSC Contract Oil	Marketing and distribution	100.00	100.00
CJSC Mytischi Fuel Company	Marketing and distribution	100.00	100.00
OJSC Stavropolnefteproduct	Marketing and distribution	100.00	100.00
U-Kuban LLC	Marketing and distribution	100.00	100.00
Other			
Rosneft International Limited	Holding company	100.00	100.00
CJSC Rosnefteflot	Transportation services	51.00	51.00
OJSC All-Russian Bank for Reconstruction and Development of Russian Regions (VBRR)	Banking	76.47	76.47
CJSC Sakhalinskie Proekty	Management company	100.00	100.00
RN-Burenie LLC	Drilling services	100.00	100.00
NK Rosneft NTC LLC	Research & development activities	100.00	100.00

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

Currency Exchange and Control

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

2. Significant Accounting Policies

Form and Content of the Consolidated Financial Statements

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

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

Certain items in the consolidated balance sheet as of December 31, 2006 and the consolidated statements of income and cash flows for 2006 and 2005 were reclassified to conform to the current year presentation.

Management Estimates

The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheet as well as the amounts of revenues and expenses recognized during the reporting periods. Certain significant estimates and assumptions for the Company include: estimation of economically recoverable oil and gas reserves; rights to and recoverability and useful lives of long-term assets and investments; impairment of goodwill; allowances for doubtful accounts receivable; asset retirement obligations; legal and tax contingencies; environmental remediation obligations; recognition and disclosure of guarantees and other commitments; fair value measurements; ability to renew operating leases and to enter into new lease agreements; classification of certain debt amounts. Some of the most significant estimates were made in connection with the acquisition of Yukos Oil Company assets (see Note 3). Management believes it has a reasonable and appropriate basis for its judgment pertaining to its estimates and assumptions. However, actual results could differ from those estimates.

Foreign Currency Translation

The management of the Company has determined the US Dollar as the functional and reporting currency for the purpose of financial reporting under US GAAP. Monetary assets and liabilities have been translated into US dollars using the official exchange rate as of the balance sheet date. Non-monetary assets and liabilities have been translated at historical rates. Revenues, expenses and cash flows are translated into US dollars at average exchange rates for the period or exchange rates prevailing on transaction dates where practicable.

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

As of December 31, 2007 and 2006, the Central Bank of the Russian Federation ("CBR") official rates of exchange were 24.55 rubles and 26.33 rubles per US dollar, respectively. As of April 7, 2008, the official rate of exchange was 23.60 rubles (‘RUB’) per US dollar.

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

Principles of Consolidation

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

Minority Interest

Minority interests in the net assets and net results of consolidated subsidiaries are shown under "Minority interest" in the accompanying consolidated balance sheets and statements of income. For majority-owned subsidiaries that incur losses, the Company recognizes 100% of the losses, after first reducing the related minority interests’ balances to zero, unless minority shareholders committed to fund the losses. Further, when a majority-owned subsidiary becomes profitable, the Company recognizes 100% of profits until such time as the excess losses previously recorded have been recovered. Thereafter, the Company recognizes profits in accordance with the underlying ownership percentage. The actual ruble-denominated balances attributable to minority interests may differ from these amounts presented in these consolidated financial statements.

Cash and Cash Equivalents

Cash represents cash on hand and in the Company’s bank accounts and interest bearing deposits which can be effectively withdrawn at any time without prior notice or penalties reducing the principal amount of the deposit. Cash equivalents are highly liquid, short-term investments that are readily convertible to known amounts of cash and have original maturities of three months or less from their date of purchase. They are carried at cost plus accrued interest, which approximates fair value.

Loans and Accounts Receivable

Loans and accounts receivable are stated at their principal amounts outstanding net of loan losses and allowances for doubtful debts. Specific allowances are recorded against trade receivables whose recovery or collection has been identified as doubtful. Estimates of allowances require the exercise of judgment and the use of assumptions.

Earnings per Share

Basic earnings per share is calculated by dividing net earnings attributable to common shares by the weighted average number of common shares outstanding during the corresponding period. In the absence of any securities-to-shares conversion transactions, the amount of basic earnings per share stated in these financial statements is equal to the amount of diluted earnings per share.

Inventories

Inventories, consisting primarily of crude oil, petroleum products and materials and supplies, are stated at the lower of weighted average cost of acquisition or market value. Market value shall not exceed net realizable value (i.e. the price at which inventories can be sold after allowing for the cost of completion and sale), and shall not be lower than net realizable values less the amount of margin.

Financial Investments

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

Trading securities are purchased and held principally for the purpose of sale in the nearest future. Held-to-maturity securities represent financial instruments that the Company has both the intent and the ability to hold to maturity.

All other securities, which do not fall into these two categories, are classified as available-for-sale securities.

Trading securities and available-for-sale securities are carried at fair (market) value.

Held-to-maturity securities are stated at amortized cost.

Unrealized gains or losses on trading securities are included in the consolidated statements of income. Unrealized gains and losses on available-for-sale securities less related tax effects are recorded as a separate component of comprehensive income until the date of disposal.

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

Investments in shares or interests of companies where the Company has less than 20% equity interest and no significant influence, which are not publicly traded, and whose market value is not readily available, are carried at cost.

If the decline in fair value of an investment below its carrying value is other than temporary, the carrying value of the investment is reduced and a loss in the amount of any such decline is recorded. Cost method investments are evaluated for impairment when events or changes in circumstances occur which may have a significant effect on the fair value of these investments. Fair value determination is based on quoted market prices, if available, or on the present value of expected cash flows using discount rates commensurate with the risks of the investment.

Sale and Repurchase Agreements and Securities Lending

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

Oil and Gas Exploration and Development

In accordance with Statement of Financial Accounting Standard ("SFAS") 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*, oil and gas exploration and development costs are recognized under the successful efforts method. This method prescribes that exploration costs, including geological and geophysical costs and the costs of dry holes, are charged to expense when incurred.

Exploratory well costs (including costs associated with stratigraphic test wells) are temporarily capitalized pending determination of whether commercial oil and gas reserves have been discovered by the drilling effort. The length of time necessary for this determination depends on the specific technical or economic difficulties in assessing the recoverability of the reserves. If a determination is made that the well did not encounter oil and gas in economically viable quantities, the well costs are expensed and are reported in "exploration expenses".

Exploratory drilling costs are temporarily capitalized pending determination of whether the well has found proved reserves if both of the following conditions are met:

- The well has found a sufficient quantity of reserves to justify, if appropriate, its completion as a producing well, assuming that the required capital expenditure is made; and
- Satisfactory progress toward ultimate development of the reserves is being achieved, with the Company making sufficient progress assessing the reserves and the economic and operating viability of the project.

The Company evaluates the progress made on the basis of regular project reviews which take into account the following factors:

- First, if additional exploratory drilling or other exploratory activities (such as seismic work or other significant studies) are either underway or firmly planned, the Company deems there to be satisfactory progress. For these purposes, exploratory activities are considered firmly planned only if they are included in the Company's three-year exploration plan/budget. At December 31, 2007, exploratory drilling costs capitalized on this basis were not material.
- In cases where exploratory activity has been completed, the evaluation of satisfactory progress takes into account indicators such as the fact that costs for development studies are incurred in the current period, or that governmental or other third-party authorizations are pending or that the availability of capacity on an existing transport or processing facility awaits confirmation. At December 31, 2007, exploratory drilling costs capitalized on this basis were not material.

Should the project be deemed commercially viable, it is then transferred to the development stage, otherwise the costs are expensed.

Costs, including "internal" costs relating to drilling and equipping of development wells, including development dry holes, as well as costs required for drilling and equipping of injection wells in the process of oil and gas reserves development, are capitalized. These costs are included in exploration and development assets in the consolidated balance sheet.

Property, Plant and Equipment

Property, plant and equipment are stated at historical cost, net of accumulated depreciation. The cost of maintenance, repairs, and replacement of minor items of property is charged to operating expenses. Renewals and betterments of assets are capitalized.

Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are included in the income statement.

Depreciation, Depletion and Amortization

Depletion expense of acquisition costs of proved oil and gas properties is calculated using the unit-of-production method based on total proved reserves. Depletion expense of other capitalized costs related to oil and gas production is calculated using the unit-of production method based on proved developed reserves. Management of the Company considers each extraction division as the appropriate level for these calculations.

Acquisition costs of unproved properties are not amortized. These costs are reclassified as proved properties when the relevant reserve reclassification is made. Acquisition costs of unproved properties are reviewed for impairment. In case of impairment these costs are expensed when incurred.

Depreciation and amortization charges with respect to property, plant and equipment other than oil and gas properties is computed using the straight-line method and based on their useful lives.

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

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

Interests in Joint Operations

A joint operation is a contractual arrangement whereby two or more parties (participants) undertake an economic activity that is subject to joint control. Joint control is only exercised when strategic, financial and operating decisions relating to the joint activity are made unanimously by all the parties. A joint venture is a registered company, partnership or any other legal form for the purposes of handling joint operations.

Financial results, assets and liabilities arising from interests in incorporated joint ventures are recognized in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in joint ventures are recognized at the cost of financial investments increased by any change to the share of net assets from the date of inception of a joint venture, less distributed earnings and impairment of financial investments. The consolidated statements of income include the Company's share in gains and losses arising from joint ventures.

The Company discontinues the use of the equity method of accounting from the date on which it ceases to have joint control over, or have significant influence in, a jointly-controlled entity, or when its interest in a jointly-controlled entity is reclassified to assets held for sale.

Undivided interests in unincorporated oil and gas joint ventures are consolidated on a proportionate basis.

A part of an interest in a jointly-controlled oil and gas exploration and production entity may be assigned to other participants or third parties. In which case, in accordance with SFAS 19, such assignment is performed and accounted for under an arrangement called a "carried interest" whereby the assignee agrees to carry all costs of drilling, developing, and operating the property. The assignee is also entitled to all of the revenue from hydrocarbon production from the property, excluding any third party interest, until all of the assignee's costs, including the contractual rate of return, have been recovered, at such time the assignor will resume its participation in operating expenses and income.

Impairment of Long-Lived Assets

Long-lived assets, including blocks with proved oil and gas reserves, are assessed for potential impairment in accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

Oil and gas properties are assessed whenever events or circumstances indicate potential impairment. If the carrying value of oil and gas properties is not recoverable through undiscounted cash flows, an impairment is recognized. The impairment is determined on the basis of the estimated fair value of oil and gas properties which, in turn, is measured by discounting future net cash flows or with reference to current market prices of oil and gas properties, if available. Discounted future cash flows from oil and gas fields are based on the most reliable management estimates of future prices that rely on recent actual prices and published prices for forward transactions; such prices are applied to forecast production volumes at particular fields with further discounting for the expected risk level.

Forecast production volumes shall be understood as reserves, including probable reserves that are proposed to be extracted using a known amount of capital expenditures. Production volumes and prices correspond to the internal plans and forecasts, as well as other data in the published financial statements. Assumptions regarding future prices and costs used to assess oil and gas properties for impairment differ from those used in the standard procedure for discounting net cash flows from proved oil and gas reserves.

Individual assets are grouped for impairment purposes at the lowest level of identifiable cash flows that are largely independent of the cash flows from other groups of assets – generally on a field-by-field basis for exploration and production assets, for refining assets – at the entire refining unit, for service stations – at the site level. Long-lived assets intended by management for use during a period not exceeding one year are recorded at the lower of depreciated value or fair value, less selling expenses.

Acquisition costs of unproved oil and gas properties are assessed for impairment on a regular basis and any estimated impairment is charged to expenses.

Business Combinations

The Company accounts for its business acquisitions under the purchase method of accounting. The total cost of acquisitions is allocated to the underlying assets, including intangible assets, and liabilities based on their respective estimated fair values. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, licence and other asset lives and market multiples, among other items.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the acquisition cost over the fair value of net assets acquired. The excess of the fair value of the acquired share of net assets over their acquisition cost represents negative goodwill and is allocated among the non-current assets acquired, excluding investments and deferred tax assets, which may result in their value being reduced to zero.

For investees accounted for under the equity method, the excess of the cost to acquire a share in those entities over the fair value of the acquired share of net assets as of the acquisition date is treated as embedded goodwill and is considered in computing the Company's equity share in income/loss of equity investees.

In accordance with requirements of SFAS 142, *Goodwill and Other Intangible Assets*, goodwill and intangible assets with indefinite useful lives are not amortized. Instead, they are tested at least annually for impairment.

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

Assets Held for Sale

The Company accounts for its assets as held for sale in accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Asset*. A long-lived asset (disposal group) to be sold is classified as held for sale in the period in which all of the held-for-sale criteria are met, and measured at the lower of its carrying amount or fair value less cost to sell. A long-lived asset is not depreciated (amortized) while it is classified as held for sale.

Capitalized Interest

Interest expense related to the use of borrowed funds used for capital construction projects and acquisition of properties, plant and equipment is capitalized provided such interest expense could have been avoided if the Company had not made capital investments. Interest is capitalized only during the period when construction activities are actually in progress and until the resulting properties are put into operation. The Company capitalized US$ 178 million, US$ 109 million and US$ 79 million of interest expenses on loans and borrowings in 2007, 2006 and 2005, respectively.

Leasing Agreements

Capital leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the interest charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liabilities. Interest charges are charged directly to the consolidated statements of income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term unless leased assets are capitalized because the terms of the lease agreement grant the Company ownership rights over the leased assets by the end of the lease term or containing a bargain purchase option. In the latter cases capitalized assets are depreciated over the estimated useful life of the asset regardless of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statements of income on a straight-line basis over the lease term.

Asset Retirement Obligations

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

Exploration and Production – The Company's exploration, development and production activities involve the use of the following assets: wells, related equipment and operating sites, oil gathering and treatment facilities, tank farms and in-field pipelines. Generally, licences and other regulatory acts require that such assets be decommissioned upon the completion of production. According to these requirements, the Company is obliged to decommission wells, dismantle equipment, restore the sites and perform other related activities. The Company's estimates of these obligations are based on current regulatory or licence requirements, as well as actual dismantling and other related costs. Asset retirement obligations are calculated in accordance with the provisions of SFAS 143, *Accounting for Asset Retirement Obligations*.

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

The Company's marine and other distribution terminals, including its retail network, operate under the regulatory requirements of local authorities and lease arrangements. These requirements generally provide for elimination of the consequences of the use of those assets, including dismantling of equipment, restoration of land, etc. The Company's estimate of asset retirement obligations takes into account the above requirements.

SFAS 143 calls for measurements of asset retirement obligations to include, as a component of expected costs, an estimate of the price that a third party would demand, and could expect to receive, for bearing the uncertainties and unforeseeable circumstances inherent in the obligations, sometimes referred to as a market-risk premium. To date, the oil and gas industry has few examples of credit-worthy third parties which are willing to assume this type of risk, for a determinable price, on major oil and gas production facilities and pipelines. Therefore, because determining such a market-risk premium would be an arbitrary process, it has been excluded from the SFAS 143 estimates.

Due to continuous changes in the Russian regulatory and legal environment, there could be future changes to the requirements and contingencies associated with the retirement of long-lived assets.

Because of the reasons described above the fair value of an asset retirement obligation cannot be reasonably estimated.

Fair Value of Financial Instruments

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

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

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

Income Taxes

Russian legislation does not contain the concept of a 'consolidated tax payer' and, accordingly, the Company is not subject to Russian taxation on a consolidated basis but rather on an individual company basis. Income taxes are provided on taxable profit as determined under the Russian Federation Tax Code. Deferred income tax assets and liabilities are recognized in the accompanying consolidated financial statements in the amount determined by the Company using the liability method in accordance with SFAS 109, *Accounting for Income Taxes*. This method takes into account future tax consequences, based on the effective tax rate, associated with differences between the carrying values of assets and liabilities and their taxable base, which gives immediate income statement effect to changes in income tax laws, including changes in the tax rates. A valuation allowance for a deferred tax asset is recorded when management believes that it is more likely than not that this tax asset will not be realized.

Starting from January 1, 2007 the Company accounts for uncertain tax positions in accordance with FIN 48 *Ac-*

counting for Uncertainty in Income Taxes. Liabilities for unrecognized income tax benefits under the provisions of FIN 48 together with corresponding interest and penalties are recorded in the consolidated statement of income as income tax expense. The adoption of FIN 48 had an insignificant impact on the consolidated financial statements.

Derivative Instruments

All derivative instruments are recorded on the consolidated balance sheets at fair value in either other current assets, other non-current assets, other current liabilities or other non-current liabilities. Recognition and classification of the gain or loss that results from recording and adjusting a derivative to fair value depends on the purpose for issuing or holding the derivative. Gains and losses from derivatives that are not accounted for as hedges under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, are recognized immediately in the consolidated statement of income.

Recognition of Revenues

Revenues are recognized when title passes from the seller to the customer, the contract price is fixed or determinable and collectability of the receivable is reasonably assured. Specifically, domestic sales of crude oil and gas, as well as petroleum products and materials are recognized when title passes. For export sales, title generally passes at the border of the Russian Federation and the Company covers transportation expenses (except freight), duties and taxes on those sales. Revenues include excise taxes and custom duties (see Note 19).

Sales of support services are recognized as services are performed provided that the service price can be determined and no significant uncertainties regarding the receipt of revenues exist.

Transportation Expenses

Transportation expenses recognized in the consolidated statements of income represent all expenses incurred in the transportation of crude oil and petroleum products via the Transneft pipeline network, as well as by railway and other transport means. Transportation expenses also include all other shipping and handling costs.

Refinery Maintenance Costs

The Company recognizes the costs of overhauls and preventive maintenance performed with respect to oil refining assets as expenses when incurred.

Environmental Liabilities

Environmental expenditures are expensed or capitalized, depending upon their future economic benefit. Expenditures that relate to an existing condition caused by past operations, and do not have a future economic benefit, are expensed. Liabilities for these expenditures are recorded on an undiscounted basis when environmental assessments or clean-ups are probable and the costs can be reasonably estimated.

Guarantees

The fair value of a guarantee is determined and recorded as a liability at the time when the guarantee is issued. The initial guarantee amount is subsequently remeasured to reflect the changes in the underlying liability. The expense is included in the related line items of the consolidated statements of income, based on the nature of the guarantee. When the likelihood of performing on a guarantee becomes probable, a liability is accrued, provided it is reasonably determinable on the basis of the facts and circumstances at that time.

Comprehensive Income

The Company applies SFAS 130, *Reporting Comprehensive Income*, which establishes standards for the calculation and reporting of the Company's comprehensive income (net income plus all other changes in net assets from non-owner sources) and its components in consolidated financial statements. As of December 31, 2007, 2006 and 2005, there are no material comprehensive income items and, therefore, comprehensive income for 2007, 2006 and 2005 equals net income.

Accounting for Contingencies

Certain conditions may exist as of the date of these consolidated financial statements which may further result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company’s management makes an assessment of such contingent liabilities which is based on assumptions and is a matter of opinion. In assessing loss contingencies relating to legal or tax proceedings that involve the Company or unasserted claims that may result in such proceedings, the Company, after consultation with legal or tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

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

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

Taxes Collected from Customers and Remitted to Governmental Authorities

Excise taxes are reported gross within sales and other operating revenues and taxes other than income taxes, while value-added tax is recorded net in taxes other than income taxes.

Recent Accounting Standards

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*. The standard defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, this standard does not require any new fair value measurements. In February 2008, the FASB issued a FASB Staff Position (FSP) on SFAS 157 that permits a one-year delay of the effective date for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company will adopt this standard effective January 1, 2008, with the exceptions allowed under the FSP SFAS 157 described above. The Company does not expect SFAS 157 to have a material impact on the Company's consolidated financial statements, other than additional disclosures.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. The standard permits all entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date, and recognize upfront costs and fees related to those items in earnings as incurred and not deferred. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company will apply this standard for financial statements issued for fiscal year beginning from January 1, 2008. The Company does not expect this standard to have a material impact on the Company's financial position and results of operations.

In May 2007, the FASB issued FSP FIN 39-1, *Amendment of FASB Interpretation No. 39* ("FSP FIN 39-1"), to amend paragraph 10 of FIN 39, *Offsetting of Amounts Related to Certain Contracts* ("FIN 39"), to permit a reporting entity that is party to a master netting arrangement to offset the receivable or payable recognized upon payment or receipt of cash collateral against the fair value amounts recognized against derivative instruments that had been offset under the same master netting arrangement in accordance with paragraph 10. FSP FIN 39-1 also amends paragraph 3 of FIN 39 to replace the terms, "conditional contracts" and "exchange contracts," with the broader term, "derivative contracts," as defined in SFAS 133. FSP FIN 39-1 applies to fiscal years beginning after November 15, 2007, with early application permitted. The Company does not expect FSP FIN 39-1 to have a material impact on the Company's consolidated financial statements.

In December 2007, FASB issued SFAS 141 (Revised), *Business Combinations* ("SFAS 141(R)"). This Statement retains the fundamental requirements in SFAS 141 that acquisition method of accounting be used for all business combinations and for an acquirer to be identified for each business combination, but expands the scope of acquisition accounting to all transactions and circumstances under which control of business is obtained. SFAS 141(R) shall be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier application is prohibited. The Company will apply this standard for its consolidated financial statements issued for fiscal periods beginning January 1, 2009. This standard will not have a material impact on the

Company's consolidated financial position and results of operations until the Company makes a significant acquisition.

In December 2007, FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements* ("SFAS 160"). This Statement amends Accounting Research Bulletin ("ARB") 51, *Consolidated Financial Statements*, to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 shall be effective for fiscal periods beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company will apply this standard for its consolidated financial statements issued for fiscal year beginning January 1, 2009. The Company has not yet identified the impact this standard will have on the Company's consolidated financial position and results of operations.

In March 2008, FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161"). This Statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 shall be effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Early application is encouraged. SFAS 161 encourages but does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In years after initial adoption, SFAS 161 requires comparative disclosures only for periods subsequent to initial adoption. The Company will apply this standard for its consolidated financial statements issued for fiscal periods beginning January 1, 2009. Application of SFAS 161 will have no impact on the Company's financial position and results of operations, other than additional disclosures.

3. Significant Acquisitions

From April through August 2007, Neft-Aktiv LLC, the Company's wholly owned subsidiary, won a number of auctions for the sale of certain assets of Yukos Oil Company following the bankruptcy proceedings of Yukos Oil Company. The following discussion summarises these acquisitions.

On April 18, 2007, Neft-Aktiv LLC won an auction for the sale of interests in several service companies located in Western Siberia regions of the Russian Federation providing oilfield services to RN Yuganskneftegaz LLC, the Company's wholly owned subsidiary. The acquisition price amounted to RUB 1.03 billion (US$ 40 million at the CBR official exchange rate as of the dates of acquisitions). The acquisition of these assets was executed to further improve of oil production efficiency at the Company's West-Siberian oil fields.

As a result of the preliminary allocation the acquisition price was fully allocated to the fair value of assets acquired and liabilities assumed.

On May 3, 2007, Neft-Aktiv LLC won an auction for the sale of interests in 37 exploration and production, refining and marketing companies in Western and Eastern Siberia region of the Russian Federation. The acquisition price amounted to RUB 175.70 billion (US$ 6.82 billion at the CBR official exchange rate as of the dates of acquisitions). In particular, the following assets were acquired:

Name	Nature of Business	Equity interest acquired, %
OJSC Tomskneft VNK	Oil and gas development and production	100.00
OJSC Angarsk Petrochemical Company	Petroleum refining	100.00
OJSC Achinsk Refinery VNK	Petroleum refining	100.00
OJSC Angarsk Polymer Plant	Petroleum refining	100.00
Strezhevskoy Refinery LLC	Petroleum refining	100.00
OJSC East-Siberian Oil and Gas Company	Oil and gas development and production	70.78
OJSC Tomskaya Raspredelitelnaya Company	Electricity transmission and distribution	25.88

Name	Nature of Business	Equity interest acquired, %
OJSC Tomskaya Energosbytovaya Company	Electricity distribution	25.88
OJSC Tomskie Magistralnye Seti	Electricity transmission and distribution	25.88
OJSC Tomskelektrosetremont	Electricity networks repair services	25.88
OJSC Tomskenergoremont	Electricity networks repair services	25.88
OJSC Tomskenergo	Electricity transmission and distribution	25.88
CJSC Irkutsknefteprodukt	Marketing and distribution	100.00
OJSC Buryatnefteprodukt	Marketing and distribution	95.10
CJSC Khakasnefteprodukt VNK	Marketing and distribution	100.00
OJSC Tomsknefteprodukt VNK	Marketing and distribution	100.00

As a result of the preliminary allocation the acquisition price was allocated to the fair value of assets acquired and liabilities assumed in the amount of US$ 5.24 billion (see also Note 17).

On May 10, 2007, Neft-Aktiv LLC won an auction for the sale of interests in 28 exploration and production, refining and marketing companies in the Samara region of the Russian Federation. The acquisition price amounted to RUB 165.53 billion (US$ 6.42 billion at the CBR official exchange rate as of the dates of acquisitions). In particular, the following assets were acquired:

Name	Nature of Business	Equity interest acquired, %
OJSC Samaraneftegaz	Oil and gas development and production	100.00
OJSC Kuybyshev Refinery	Petroleum refining	100.00
OJSC Novokuybyshev Refinery	Petroleum refining	100.00
OJSC Syzran Refinery	Petroleum refining	100.00
CJSC Neftegorsk Gas-Processing Plant	Gas processing	98.10
CJSC Otradny Gas-Processing Plant	Gas processing	98.10
OJSC Samaranefteprodukt	Marketing and distribution	100.00
Samara Terminal LLC	Marketing and distribution	100.00

As a result of the preliminary allocation the acquisition price was allocated to the fair value of assets acquired and liabilities assumed in the amount of US$ 5.04 billion.

On May 16, 2007, Neft-Aktiv LLC won an auction for the sale of interests in several small service and information technology companies. The acquisition price amounted to RUB 1.80 billion (US$ 70 million at the CBR official exchange rate as of the dates of acquisitions).

As a result of the preliminary allocation the acquisition price was allocated to the fair value of assets acquired and liabilities assumed in the amount of US$ 70 million.

On June 15, 2007, Neft-Aktiv LLC acquired from Unitex LLC assets that were previously owned by Yukos Oil Company, including interests in companies engaged in retail and wholesale of petroleum products and providing services related to storage of petroleum products in the European part of the Russian Federation. The Company acquired these assets to develop its own oil product distribution network following the growth of oil refining capacity as well as to expand its presence in the European part of the Russian Federation oil products market. The acquisition price amounted to RUB 16.32 billion (US$ 627 million at the CBR official exchange rate as of the dates of acquisitions).

In particular, the following assets were acquired:

Name	Nature of Business	Equity interest acquired, %
OJSC Belgorodnefteprodukt	Marketing and distribution	100.00
CJSC Bryansknefteprodukt	Marketing and distribution	100.00
OJSC Voronezhnefteprodukt	Marketing and distribution	100.00
CJSC Lipetsknefteprodukt	Marketing and distribution	100.00
CJSC Orelnefteprodukt	Marketing and distribution	100.00
CJSC Penzanefteprodukt	Marketing and distribution	100.00
CJSC Tambovnefteprodukt	Marketing and distribution	100.00
CJSC Ulyanovsknefteprodukt	Marketing and distribution	100.00
Ulyanovsk Terminal LLC	Marketing and distribution	100.00
CJSC FPK KEDR M	Marketing and distribution	100.00
CJSC NBA Service	Marketing and distribution	100.00
OJSC Germes Moskva	Marketing and distribution	82.80
CJSC Contract Oil	Marketing and distribution	100.00
CJSC Mytischi Fuel Company	Marketing and distribution	100.00

As a result of the preliminary allocation the acquisition price was allocated to the fair value of assets acquired and liabilities assumed in the amount of US$ 627 million.

At the end of June 2007 Rosneft and Neft-Aktiv LLC acquired from Prana LLC (further 'Prana') assets that were previously owned by Yukos Oil Company, including the 100% interest in Dubininskoe LLC which owns office property, and the 100% interest in Trade House Yukos-M LLC which owns operational and management assets of exploration and production and refining and marketing companies. The main purposes of the purchase were to acquire the relevant fixed and working capital assets, to facilitate the integration processes in relation to recently acquired oil production, refining and marketing companies that had previously been managed by these entities acquired from Prana and also to minimize operational, financial and other intragroup risks of the assets previously acquired. The acquisition price amounted to RUB 87.58 billion (US$ 3.38 billion at the CBR official exchange rate as of the dates of acquisitions).

As a result of the preliminary allocation the acquisition price was allocated to the fair value of assets acquired and liabilities assumed in the amount of US$ 2.0 billion.

In early July 2007 Neft-Aktiv LLC acquired shares and interests in oil production and marketing companies located in the South region of the Russian Federation. Pursuant to the decision of the Yukos Oil Company Creditors' Committee dated May 16, 2007, Neft-Aktiv LLC, being a runner-up in the auction of May 3, 2007 was granted the right to enter into the agreement for sale and purchase of assets earlier sold at that auction. In June 2007 Neft-Aktiv LLC signed the sale and purchase agreement and the transaction was completed in early July 2007. The Company acquired these assets to develop its retail network following the growth of the refining capacity as well as to expand its presence in the European part of the Russian Federation. The acquisition price amounted to RUB 4.9 billion (US$ 190 million at the CBR official exchange rate as of the dates of acquisitions). In particular, the following assets were acquired:

Name	Nature of Business	Equity interest acquired, %
OJSC Caspian Oil Company	Oil and gas development and production	49.89
Val Shatskogo LLC	Oil and gas development and production	100.00
OJSC Stavropolnefteproduct	Marketing and distribution	100.00
U-Kuban LLC	Marketing and distribution	51.00
OJSC Kuban Generating Company	Electricity generation	26.26
OJSC Kuban Energosbytovaya Company	Electricity distribution	26.26
OJSC Kubanskiye Magistralnye Seti	Electricity transmission and distribution	26.26
OJSC Kubanenergo	Electricity transmission and distribution	26.26

As a result of the preliminary allocation the acquisition price was allocated to the fair value of assets acquired and liabilities assumed in the amount of US$ 158 million.

On August 8, 2007 the Company won an auction for the sale of shares and interests in eight marketing and service companies together with certain other assets which primarily included property, plant and equipment located in the West Siberia region of the Russian Federation and related to the exploration, production and transportation of crude oil. The acquisition price of shares and interests in companies amounted to RUB 9.05 billion (US$ 360 million at the CBR official exchange rate as of the dates of acquisitions), and the acquisition price of property, plant and equipment amounted to RUB 7.97 billion (US$ 311 million at the CBR official exchange rate as of the dates of acquisitions). The principle acquisition is a 100% interest in CJSC YUKOS-Transservice located in the Samara region of the Russian Federation. CJSC YUKOS-Transservice provides petroleum products transportation services.

As a result of the preliminary allocation the acquisition price attributable to the interests in eight marketing and service companies was allocated to the fair value of assets acquired and liabilities assumed in the amount of US$ 360 million. The remaining US$ 311 million represents asset acquisitions and were allocated in full to the fair value of wells and related facilities located on fields where the Company already had the necessary licences.

Over the course of the acquisitions in the second and third quarters of 2007, the Company acquired more than 140 legal entities, including three large upstream subsidiaries with significant current production and estimated proved and probable reserves, five refineries with significant aggregate economic distillation capacity, a significant number of retail stations as well as management assets, including real estate, information technology, personnel, and know-how which for previous years had been operating the assets. These acquisitions amounted to US$14.3 billion, net of cash received for the sale of 50% interest in OJSC Tosmsknefft VNK and certain other assets (see Note 17). As a result, the Company significantly increased its crude oil production and refining capacity, entered new geographical markets and substantially expanded its retail network and customer base creating a platform to achieve better downstream margins and added flexibility in netback options. Through such increased margins and incremental flexibility, management is confident that these acquisitions increase Rosneft's ability to earn a higher rate of return across its asset portfolio. Such value stems from the synergies which exist between the assets acquired both across lots and with Rosneft's historical assets as well as strategic benefits drawn from the new markets and geographic regions to which the Company now has access.

Based on the preliminary purchase price allocation, total goodwill in the amount of US$ 4.37 billion is attributed primarily to the refinery, marketing and distribution segment (US$ 2.92 billion), as well as to the exploration and production segment (US$ 1.45 billion) which are both expected to benefit from the synergies of the acquisitions. Included in the latter is US$ 743 million related to OJSC Tosmsknefft VNK and certain other assets, 50% of which was sold in December 2007 (see Note 17). None of the goodwill is deductible for tax purposes.

The Company consolidated the operating results of the acquired assets starting from the date on which ownership was transferred. The transfer date is different for every asset and depends on the date of signing the transfer act (for joint-stock companies) or the notice date (for limited liability companies).

The following table summarizes the Company's preliminary purchase price allocation to the fair value of assets acquired and liabilities assumed:

	Preliminary purchase price allocation	Purchase price allocation adjustments	Current preliminary purchase price allocation
ASSETS			
Current assets			
Cash and cash equivalents	1,197	(12)	1,185
Short-term investments	633	65	698
Accounts receivable	3,398	(276)	3,122
Inventories	849	11	860
Prepayments and other current assets	543	3	546
Total current assets	6,620	(209)	6,411
Long-term investments	161	48	209
Property, pant and equipment	13,825	1,395	15,220
Intangible assets	–	274	274
Deferred tax assets	114	81	195
Other non-current assets	204	37	241
Total non-current assets	14,304	1,835	16,139
Total assets	20,924	1,626	22,550
LIABILITIES			
Accounts payable	1,282	(56)	1,226
Short-term loans and borrowings and current portion of long-term debt	2,512	(14)	2,498
Income and other tax liabilities	649	(140)	509
Deferred tax liability	280	(43)	237
Other current liabilities	344	43	387
Total current liabilities	5,067	(210)	4,857
Asset retirement obligations	497	411	908
Long-term debt	978	(27)	951
Deferred tax liability	1,935	462	2,397
Other non-current liabilities	152	41	193
Total non-current liabilities	3,562	887	4,449
Total liabilities	8,629	677	9,306
Total net assets acquired	12,295	949	13,244
Minority interest	(11)	3	(8)
Purchase price	17,551	56	17,607
Goodwill	5,267	(896)	4,371

Property, plant and equipment includes mineral rights in the amount of US$ 219 million.

Other current liabilities and other non-current liabilities include accrued liabilities for preacquisition contingencies in the amount of US$ 198 million and US$ 55 million, respectively. These contingent liabilities arose from lawsuits against the newly acquired companies. Tax related preacquisition contingencies in the amount of US$ 179 million are included within income and other tax liabilities.

The preliminary purchase price allocation, which already included adjustments, made in the third quarter of 2007, was adjusted due to the revisions made in the fourth quarter of 2007 of fair values of the assets acquired and liabilities assumed which primarily include refinement of the fair values of property, plant and equipment, recognition of additional accounts receivable (see Note 7), additional tax and other liabilities and

additional asset retirement obligations identified.
This purchase price allocation and the allocation of goodwill among reporting units is still preliminary and the Company expects to finalize the allocation following the conclusion of the fair values determination of all the assets acquired and liabilities assumed.

Pro forma financial information assuming that the acquisition of assets occurred as of the beginning of 2005, which is required by SFAS 141 has not been presented herein as the Company does not have access to reliable US GAAP financial information regarding the acquired assets for the periods prior to the acquisition.

4. Other Acquisitions and Share Swap

Asset Acquisitions

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).

On August 15, 2007 the Company won an auction for the sale of the rights to claim the accounts receivable of Yukos Oil Company. The acquisition price amounted to RUB 11.56 billion (US$ 445 million at the CBR exchange rate as of the date of acquisition). The majority of the acquired receivables pertains to amounts due from former Yukos subsidiaries acquired by the Company at the previous auctions for the sale of the assets of Yukos Oil Company and totals RUB 7.93 billion (US$310 million at the CBR exchange rate as of the date of acquisition) (see Note 7).

OJSC Ohinskaya TETS

In January 2007, the Company paid RUB 629 million (US$ 24 million at the CBR exchange rate as of the transaction date) to acquire 55,331,951 ordinary shares of OJSC Ohinskaya TETS. Immediately after this acquisition, the Company's ownership interest became 85.61% of OJSC Ohinskaya TETS's total equity. Further in April 2007, the Company acquired 9,876,869 of additional ordinary shares of OJSC Ohinskaya TETS, increasing its share in the entity's total equity to 87.52%. The purchase price amounted to RUB 112 million (US$ 4 million at the CBR exchange rate as of the dates of acquisition).

OJSC Ohinskaya TETS is a local Sakhalin producer and seller of electrical power and heat. One of the main consumers of OJSC Ohinskaya TETS's output is RN-Sakhalinmorneftegaz LLC, the Company's subsidiary.

The primary reason for this acquisition was to improve electricity supply management. The purchase price was fully allocated to the fair value of assets acquired and liabilities assumed. The results of operations of OJSC Ohinskaya TETS are not significant and therefore pro forma financial information has not been disclosed herein.

OJSC Verkhnechonskneftegaz

In January 2007, the Company bought 339,582 additional ordinary shares of OJSC Verhnechonskneftegaz for RUB 201 million (US$ 7.6 million at the CBR exchange rate as of the transaction date). Through this purchase the Company maintained its previous share of 25.94% in this investment.

CJSC Yukos-Mamontovo

On April 3, 2007, the Company received the title to 100% interest in CJSC Yukos-Mamontovo in settlement of an ownership claim brought by the Company. The title to this asset was transferred in accordance with the court ruling issued by the Moscow Arbitration Court. CJSC Yukos-Mamontovo is the owner of service facilities leased by RN-Yuganskneftegaz LLC and used in crude oil production. The receipt of this interest was accounted for as a revision to the original purchase accounting of OJSC Yuganskneftegaz with no material effect on the Company's consolidated financial statements.

CJSC Vlakra

In late June 2007, the Company acquired 5,860 ordinary shares of OJSC Vlakra which accounted for 50% of the total number of ordinary shares issued by this entity. CJSC Vlakra has the right to use a land plot and office premises located in Moscow.

The purchase price of the above shares amounted to US$ 108 million and was paid for in cash. The acquisition price was fully allocated to the fair values of the acquired assets and liabilities. The Company accounts for this investment under the equity method of accounting.

Acquisition of Oil Products Retail Networks

OJSC JV ANTARES

In August 2007 the Company acquired a 100% interest in OJSC JV ANTARES, an indirect owner of a network of gas stations and an oil tank farm in the Moscow Region, for US$ 55 million.

Oxoil Limited

In September 2007 the Company acquired a 100% interest in Oxoil Limited (Cyprus), an indirect owner of a network of gas stations in the Moscow Region, for US$ 42 million.

Rokada Market LLC

In August 2007 a subsidiary of the Company – OJSC Rosneft-Stavropolye acquired a 100% interest in Rokada Market LLC for RUB 1,482 million (US$ 57.8 million at the CBR exchange rate as of the transaction date). Rokada Market LLC is the owner of a network of gas stations and an oil tank farm in the Stavropol Region of the Russian Federation.

The following table summarizes the Company's preliminary purchase price allocation of OJSC JV ANTARES, Oxoil Limited and Rokada Market LLC to the estimated fair values of assets acquired and liabilities assumed:

Current assets	27
Non-current assets	157
Total assets	184
Current Liabilities	25
Non-current liabilities	4
Total liabilities	29
Total net assets acquired	155

This purchase price allocation is preliminary pending final determination of the fair values of assets acquired and liabilities assumed. The results of operations of OJSC JV ANTARES, Oxoil Limited and Rokada Market LLC are not material and therefore pro forma financial information has not been disclosed herein.

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 (see also Note 15). 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.

Share Swap

In June 2006, the shareholders of Rosneft and of the Merging Subsidiaries (see Note 1) approved the conversion of shares of the Merging Subsidiaries into the Company's shares at agreed conversion ratios. Subsequent to this, the Merging Subsidiaries were merged with the Company. 1,220,939,458 shares of Rosneft were issued to acquire the shares of minority shareholders of these Merging Subsidiaries (11.52% of the Rosneft's share capital).

This acquisition of minority interest was accounted for as a purchase, in accordance with SFAS 141, *Business Combinations*. The fair value of purchase consideration, that is Rosneft shares, issued for the Share Swap, was determined based on the market value of the shares as of the date nearest to the date on which all the terms of the deal were agreed upon and amounted to US$ 9,218 million. The excess of the fair value of the shares issued over the fair value of minority interests acquired in the amount of US$ 69 million was recorded as goodwill and relates to the refining and marketing segment. The Company attributes this goodwill to the synergy effects 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 acquired exceeded the purchase price, negative goodwill existed which has reduced, on a pro rata basis, the amounts assigned to the non-current assets acquired.

5. Cash and Cash Equivalents

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

	2007	2006
Cash on hand and in bank accounts in RUB	474	244
Cash on hand and in bank accounts in foreign currencies	111	192
Deposits and other	413	69
Total cash and cash equivalents	998	505

Restricted cash as of December 31 comprises the following:

	2007	2006
Obligatory reserve with the CBR	25	18
Other restricted cash	9	–
Total restricted cash	34	18

The obligatory reserve with the CBR represents the amounts deposited by the Company's subsidiary bank, VBRR with the CBR for securing the current operating activity of the bank. Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBR, which amount depends on the level of funds raised by the credit institution and this amount has certain restrictions for use.

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

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

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

6. Short–Term Investments

Short-term investments as of December 31 comprise the following:

	2007	2006
Short-term loans granted	4	2
Loans to related parties	25	34
Promissory notes held to maturity	123	–
Trading securities		
Promissory notes	1	91
Corporate and state bonds	149	170
Other	4	39
Available-for-sale securities	18	120
Bank deposits	5	–
Other	9	4
Total short-term investments	338	460

State bonds primarily represent federal loan bonds issued by the Ministry of Finance of the Russian Federation with maturities ranging from May 2008 to February 2036, coupon yields in 2007 ranging from 3.0% p.a. to 12.5% p.a.

Corporate bonds represent bonds issued by large Russian corporations and bonds issued by the CBR with maturities ranging from October 2008 to September 2010 and interest rates ranging from 5.0% to 14.0%.

Short-term promissory notes held to maturity are denominated in RUB and bear interest rates ranging from 8.0% to 14.0%.

7. Accounts Receivable, Net

Accounts receivable as of December 31 comprise the following:

	2007	2006
Trade receivables	3,812	1,176
Value-added tax receivable	4,029	2,092
Other taxes	499	117
Banking loans to customers	996	580
Accounts receivable from Yukos Oil Company	–	810
Other	521	140
Less: allowance for doubtful accounts	(72)	(65)
Total accounts receivable, net	9,785	4,850

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

Value added tax receivable ("VAT") primarily includes input VAT associated with export sales, which is reimbursed from the budget in accordance with Russian tax legislation.

In June and October 2007, the Company received approximately RUB 294.3 billion (US$ 11.5 billion at the CBR exchange rate as of the date of receipt) from the receiver as a result of Yukos Oil Company bankruptcy proceedings. The amount of US$ 483 (see Note 9) million was recorded in these consolidated financial statements as a repayment of debt receivable previously acquired, and US$ 8,970 million was recorded as income in the consolidated statement of income. The remaining US$ 2,037 million was recognized as a repayment of previously recorded accounts receivable.

Other accounts receivable include those acquired by the Company through the auction on August 15, 2007 from Yukos Oil Company (see Note 4). As of December 31, 2007, the amount of unsettled receivables was US$ 140 million.

8. Inventories

Inventories as of December 31 comprise the following:

	2007	2006
Materials and supplies	503	348
Crude oil and gas	516	329
Petroleum products	907	228
Total inventories	1,926	905

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

9. Prepayments and Other Current Assets

Prepayments and other current assets as of December 31 comprise the following:

	2007	2006
Prepayments to suppliers	803	599
Insurance prepayments	21	27
Customs	814	442
Acquired debt receivable	–	483
Other	93	38
Total prepayments and other current assets	1,731	1,589

Customs primarily represent export duty prepayments related to the export of crude oil and petroleum products (see Note 19).

The acquired debt receivable was fully repaid in June 2007 (see Note 7).

10. Long–Term Investments

Long-term investments as of December 31 comprise the following:

	2007	2006
Equity method investments		
OJSC Tomskneft VNK	1,419	–
Polar Lights Company LLC	153	132
JV Rosneft-Shell Caspian Ventures Limited	27	26
OJSC Daltransgaz	49	57
OJSC Verkhnechonskneftegaz	222	225
Taihu Ltd	–	–
CJSC Vlakra	108	–
OJSC Kubanenergo	102	–
OT Belokamenka LLC	2	2
CJSC Kaspiy-1	–	–
Other	208	4
Total	2,290	446
Available-for-sale securities		
Russian government bonds	1	1
OJSC TGK-11	43	–
Long-term promissory notes	7	14
Held-to-maturity securities		
Long-term loans granted	3	9
Long-term loans to equity investees	279	80
Cost method investments	19	17
Other	4	1
Total long-term investments	2,646	568

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

	Participation interest (percentage) as of December 31, 2007	Share in income/(loss) of equity investees		
		2007	2006	2005
Polar Lights Company LLC	50.00	36	47	42
CJSC Kaspiy-1	41.22	–	(29)	–
OJSC Verkhnechonskneftegaz	25.94	(11)	(6)	1
JV Rosneft-Shell Caspian Ventures Limited	51.00	6	7	7
OJSC Tomskneft VNK	50.00	5	–	–
Taihu Ltd	51.00	–	–	–
OJSC Daltransgaz	25.00	(8)	–	–
Other	various	(5)	(2)	1
Total equity share		23	17	51

Polar Lights Company LLC ("PLC")

PLC is a limited liability company owned 50% by Conoco Phillips Timan-Pechora Inc., and 50% by the Company. PLC is primarily engaged in the development of the Ardalin and satellite fields in the Timan-Pechora Basin located 125 kilometers south of the Barents Sea above the Arctic Circle. Development of the Ardalin field commenced in late 1992 and the first oil was produced in 1994.

JV Rosneft-Shell Caspian Ventures Limited

JV Rosneft-Shell Caspian Ventures Limited ("JV") is a joint venture in which the Company holds a 51% interest. The Articles of Incorporation of this joint venture stipulate, however, that key decisions regarding its business shall be subject to unanimous approval by both participants and none of the participants has a preferential voting right.

On February 6, 1997, the Company, through the JV, signed an agreement with eight oil and gas companies and government agencies of the Russian Federation and the Republic of Kazakhstan for the establishment of Caspian Pipeline Consortium ("CPC"). The purpose of the consortium is to design, finance, construct and operate a pipeline from the oil fields located in Western Kazakhstan through Russia to the port of Novorossiysk. The interest of the JV in the CPC is 7.5%. In October 2001, the CPC pipeline was put in operation.

OJSC Daltransgaz

OJSC Daltransgaz is an operator for the program to supply gas to the Sakhalin Region and the Khabarovsk and Primorye Territories.

OJSC Verkhnechonskneftegaz

OJSC Verkhnechonskneftegaz holds the licence for the development of the Verkhnechonskoye oil and gas condensate deposit, which is the largest oil deposit in the Irkutsk region.

CJSC Kaspiy-1

In 1997, a subsidiary of the Company made a contribution to the share capital of CJSC Kaspiy-1 which was founded to construct an oil refinery in Makhachkala (the Republic of Dagestan). The refinery has been commissioned. Due to significant and continuous capacity underutilization, the Company considered that decline in fair value is other-than temporary and the carrying amount of this investment was fully written-down in 2006 in the amount of US$ 29 million.

Taihu Ltd / OJSC Udmurtneft

In November 2006, the Company acquired a 51% equity share in Taihu Ltd, a joint venture incorporated with the intention of managing the activity of OJSC Udmurtneft. The Company paid 5,100 Cyprus Pounds (approximately US$ 11 thousand) for this investment which has been included within equity method investments. The other party to the joint venture is China Petrochemical Corporation ("Sinopec") with a respective share of 49%.

The Shareholder Agreement in respect of this joint venture stipulates that key decisions regarding its business shall be subject to unanimous approval by both participants and none of the participants has a preferential voting right.

In December 2006, Taihu Ltd, through its wholly owned subsidiary, acquired a 96.86% equity interest in OJSC Udmurtneft for US$ 3,541 million. The credit facility for financing the purchase of 96.86% shares of OJSC Udmurtneft was provided to Taihu Ltd by Bank of China and principally secured by OJSC Udmurtneft's shares, without recourse to the Company.

OJSC Udmurtneft is located in the Volga-Ural region of the Russian Federation and holds the licences for the development of 24 productive oil and gas condensate deposits. OJSC Udmurtneft is a group of 17 companies.

OJSC Tomskneft VNK

In December 2007, the Company finalized the sale of 50% equity interests in OJSC Tomskneft VNK, Strezhevskoy Refinery LLC and several other companies which had been previously acquired through the auction for the sale of the assets of Yukos Oil Company (see Note 3 and Note 17). The Shareholder Agreement provides that key decisions regarding the business operations of OJSC Tomskneft VNK shall be subject to unanimous approval by both participants and none of the participants has a preferential voting right. The investment in OJSC Tomskneft VNK includes goodwill of US$ 368 million.

OJSC TGK-11, OJSC Kubanenergo and Other Electric Power Companies

The Company acquired interests in OJSC Tomskenergo, OJSC Kubanenergo and other electric power generation, transmission, distribution and maintenance companies located in the Tomsk region and in the south of Russia (see Note 3) through the auctions for the sale of the assets of Yukos Oil Company that were held in May and July 2007. In 2007 the above interests were accounted for under equity method.

As part of the current reform of the Russian electric power industry, the above companies are being merged into larger territorial power generation companies (TGKs) or interregional distribution grid companies (MRSKs) located in the corresponding regions of the Russian Federation.

As a result of the restructuring process, the shares of the above companies are being converted into the shares of TGKs and MRSKs. Following such conversion, the Group's interest in the share capitals of the corresponding TGKs and MRSKs will be reduced as compared to that in the acquired companies. Consequently, the Group's investments will be accounted for as available for sale securities.

In the fourth quarter of 2007 OJSC Tomskenergo was merged into OJSC TGK-11. Following the conversion of OJSC Tomsenergo's shares as a result of the above merger, the Company's interest in the share capital of OJSC TGK-11 amounted to 5.28%. The Company is disputing the merger and the conversion of the shares in court. As of December 31, 2007, this investment was accounted for as an available for sale security.

11. Property, Plant and Equipment, Net

	Initial cost		Accumulated depreciation		Net carrying amount	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
Exploration and production	47,837	38,553	(8,410)	(5,814)	39,427	32,739
Refining, marketing and distribution	12,873	3,493	(2,370)	(703)	10,503	2,790
Other	2,107	523	(351)	(107)	1,756	416
Total property and equipment	62,817	42,569	(11,131)	(6,624)	51,686	35,945

Exploration and production assets include costs to acquire unproved properties in the amount of US$ 4,165 million as of December 31, 2007, and US$ 3,878 million as of December 31, 2006. The Company plans to explore and develop the respective properties. The Company's management believes these costs are recoverable.

For the purposes of evaluation of the reserves as of December 31, 2007 and 2006 the Company used oil and gas reserves data prepared by DeGolyer and MacNaughton, independent reservoir engineers. The Company used the reserve report to calculate depreciation, depletion and amortization relating to oil and gas properties for 2007 and 2006. The reserve report was also used for the assessment of impairment of oil and gas assets and for the required supplemental disclosure for oil and gas activities (see supplementary oil and gas disclosure).

As described in the "Depreciation, Depletion and Amortization" section of Note 2, the Company calculates depletion using the unit-of-production method over proved or proved developed oil and gas reserves depending on the nature of the costs involved. The proved or proved developed reserves used in the unit of production method assume the extension of the Company's production licences beyond their current expiration dates until the end of the economic lives of the fields as discussed below in further detail.

The Company's oil and gas fields are located principally in the territory of the Russian Federation. The Company obtains licences from the governmental authorities to explore and produce oil and gas from these fields. The Company's existing production licences generally expire during the period 2009 to 2044. Expiration dates of licences for the most significant fields are between 2013 and 2044, and the licence for the largest field, Priobskoye, expires in 2044. The economic lives of the major licenced fields extend significantly beyond these dates. Under Russian law, the Company is entitled to renew the licences to the end of the economic lives of the fields, provided certain conditions are met. Article 10 of the Subsoil Law provides that a licence to use a field "shall be" extended at its scheduled termination at the initiative of the subsoil user if necessary to finish production of the field, provided that there are no violations of the conditions of the licence.

The legislative history of Article 10 indicates that the term "shall" replaced the term "may" in August 2004, clarifying that the subsoil user has an absolute right to extend the licence term so long as it has not violated the conditions of the licence. In 2006, no licences came up for renewal. In 2007, the Company filed 42 applications for the extension of the licence terms and has currently extended 22 of its main production licences for the period equivalent to the expected life of the fields. During the above period, none of the applications filed by the Company for the extension of the licence terms was turned down by the authorized government bodies. The Company's current production plans are based on the assumption, which management considers to be reasonably certain, that the Company will be able to extend all other existing licences. These plans have been designed on the basis that the Company will be producing crude oil through the economic lives of the fields and not with a view to exploiting the Company's reserves to maximum effect only through the licence expiration dates.

Accordingly, management has included in proved reserves in the supplementary information on oil and gas exploration and production activities of the consolidated financial statements as of and for the year ended December 31, 2007 all reserves that otherwise meet the standards for being characterized as "proved" and that the Company estimates it can produce through the economic lives of Company's licensed fields.

Proved reserves should generally be limited to those that can be produced through the licence expiration date unless there is a long and clear track record which supports the conclusion that extension of the licence will be granted as a matter of course. The Company believes that extension of the licences will occur as a matter of course as fully described above.

Sakhalin-1

The Company's primary investment in production sharing agreements ("PSA") is through the Sakhalin-1 project (PSA 1), which is operated by ExxonMobil, one of the PSA participants. In February 2001, the Company signed an agreement with Oil and Natural Gas Corporation ("ONGC") in relation to its interest in the PSA 1 which reduced the Company's interest to 20%. The Company recorded the investment in its retained share under the "carried interest" method.

On July 31, 2006, the Company repaid US$ 1.34 billion (including accumulated interest) to ONGC with respect to the costs of the Company carried by ONGC in previous years. Following this settlement the Company recovered the right to receive the income equivalent to its interest in the project. US$ 1.33 billion of the US$ 1.34 billion paid was recorded as oil and gas properties. The remaining amount was reflected in the appropriate lines of the balance sheet and the statement of income based on the nature of the cost originally incurred.

Sakhalin-5

The participants of the project are subsidiaries of the Company and BP p.l.c. In March 2004, the licence for geological study of the Kaigansko-Vasyukansky block held by the Company was transferred to CJSC Elvari Neftegaz, which is a wholly owned subsidiary of Elvary Neftegaz Holdings B.V., an entity jointly established by the participants of the project.

The Shareholders and Operating Agreement was signed between the participants and the operator in June 2004. In accordance with the terms of the agreement, during the exploration stage project funding will be fully provided by BP p.l.c., while during the development stage BP p.l.c. will carry a portion of payments due from the Company and will provide credit support to obtain project funding.

The Company recognizes this investment using the equity method of accounting.

Other Projects

The Company is a party to other projects associated with the exploration and development of the Sakhalin shelf (Zapadno-Shmidtovsky and Vostochno-Shmidtovsky blocks). Under those arrangements, the other participant (BP p.l.c.) carries the costs associated with the exploration of these offshore blocks. Exploration and development of these projects is still at an early stage. The Company's costs (currently insignificant) associated with these projects were capitalized.

In July 2005, the Company entered into a PSA agreement with the Kazakhstan Government for the joint development of the Kurmangazy oil and gas prospect. The participants of the project are a subsidiary of the Company, RN Kazakhstan LLC, and a subsidiary of Kazakhstan State JSC KazMunaiGaz, JSC "NK KazMunaiGaz – KazMunaiTeniz" ("KazMunaiTeniz"), with equal shares of 50%. The agreement provided for a signing bonus in the amount of US$ 50 million. The Company's share of US$ 25 million is recognized within mineral rights. In accordance with the terms of the agreement, upon a commercial discovery the Russian Federation has an option to buy a 25% share in the project at a future market price, by reducing the share of RN-Kazakhstan LLC in the project. If the Russian Federation does not exercise its option, this share shall be sold to third parties at a market price or redistributed between the participants in equal parts. If the share is sold, the proceeds from the sale shall be used to cover the expenses already incurred, including those borne by RN Kazakhstan LLC which are attributable to the disposed share. Any excess of the proceeds from the sale of share over the expenses shall be equally distributed between RN Kazakhstan LLC and KazMunaiTeniz.

Cash Flows Details

Capital expenditures in the consolidated statements of cash flows comprise the following:

	2007	2006	2005
Acquisition and construction of property, plant and equipment	5,931	3,293	1,944
Construction materials	309	169	–
Total capital expenditures	6,240	3,462	1,944

12. Leased Property, Plant and Equipment, Net

The following is the analysis of the property, plant and equipment under capital leases as of December 31:

	2007	2006
Oil and gas properties	42	26
Less: accumulated depletion	(6)	(1)
Oil and gas properties, net	36	25
Other property, plant and equipment		
Buildings and constructions	5	–
Plant and machinery	39	3
Vehicles	174	3
Total	218	6
Less: accumulated depreciation	(24)	(2)
Property, plant and equipment, net	194	4
Total net book value of leased property	230	29

Below is the analysis of the repayment of capital lease obligations as of December 31:

	2007
2008	66
2009	55
2010	50
2011	43
2012 and after	13
Imputed interest	(24)
Present value of capital lease payments	203

Operating Lease

The Company has obligations which are primarily related to the operating lease of oil and gas facilities in the amount of US$ 19 million for 2008.

The total amount of operating lease expenses was as follows:

	2007	2006	2005
Total lease expenses	127	115	120
Total sublease revenues	5	15	3

13. Goodwill and Intangible Assets

Goodwill in the amount of US$ 2,914 million and US$ 714 million represents the excess of the purchase price of additional shares in various entities in the refining, marketing and distribution segment and exploration and production segment, respectively, acquired during 2007, over the fair value of the corresponding share in net assets (see Note 3).

The remaining goodwill of US$ 161 million, which relates to the refining, marketing and distribution segment, was tested for impairment as of December 31, 2007 and 2006, and no impairment was identified.

Intangible assets represent primarily land rights in the amount of US$ 274 million acquired during 2007. The land rights have useful lives of 20 years, on average.

14. Other Non–Current Assets

Other non-current assets as of December 31 comprise the following:

	2007	2006
Payment made in favor of Factorias Vulcano S.A	233	145
Advances paid for capital construction	610	142
Debt issue cost	40	22
Long-term VAT	85	32
Other non-current assets	146	86
Other non-current assets	1,114	427

An advance payment was made in favor of Factorias Vulcano S.A for the construction of three twin-hull shuttle oil tankers (see Note 16). As of December 31, 2007 the vessels were in the final stage of construction. The remaining part of the advance to be paid in 2008 is approximately US$ 7 million.

15. Accounts Payable and Accrued Liabilities

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

	2007	2006
Trade accounts payable	2,034	851
Salary and other benefits payable	286	130
Advances received	568	350
Dividends payable	2	2
Banking customer accounts	818	386
Promissory notes payable	–	2
Obligations under Total E&P Vankor claim	–	134
Other	327	143
Total accounts payable and accrued liabilities	4,035	1,998

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

In October 2007, the Company acquired 100% of the shares of E&P Vankor Ltd which is the beneficiary under the succeeded legal claim against the Company (see Note 4). Consequently, this no longer represents a liability to the Company.

16. Short–Term Loans and Long–Term Debt

Short-term loans and borrowings as of December 31 comprise the following:

	2007	2006
Bank loans – foreign currencies	10,352	79
Bank loans – RUB denominated	51	2,517
Customer deposits – foreign currencies	20	29
Customer deposits – RUB denominated	291	164
Promissory notes payable	50	93
Promissory notes payable – Yukos related	904	678
Borrowings – RUB denominated	234	6
Borrowings – RUB denominated – Yukos related	728	497
Borrowings – US$ denominated	–	2
	12,630	4,065
Current portion of long-term debt	2,920	2,362
Total short-term loans and borrowings and current portion of long-term debt	15,550	6,427

Foreign currency denominated short-term bank loans primarily represent financing received from a consortium of international banks.

In March-May 2007, the Company obtained bridge financing from a consortium of international banks in the total amount of US$ 22.0 billion to finance planned acquisitions (see Note 3). These bridge loans were partially refinanced in February 2008 in the amount of US$ 2.97 billion (see Note 26) so the respective amount of this short-term debt is classified as long-term as of December 31, 2007. As of December 31, 2007, the amount outstanding under these short-term bridge financing facilities which were not refinanced was US$ 8.73 billion bearing interest of London Interbank Offering Rate ("LIBOR") plus 0.45% p.a. and is included in the Bank loans – foreign currencies denominated.

In June-August 2007, the Company obtained three loans from Russian state controlled banks in the total amount of US$ 1,580 million bearing interest of 6.75%-7.0% p.a. for one year.

Customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary bank, denominated in RUB and foreign currencies. Customer deposits denominated in RUB bear an interest rate ranging from 0.5% p.a. to 12.0% p.a. Customer deposits denominated in foreign currencies bear an interest rate ranging from 3.0% p.a. to 8.0% p.a.

Promissory notes are primarily payable on demand. The promissory notes bear interest rates ranging from 0% to 9% p.a. The promissory notes are recorded at amortized cost.

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

RUB denominated borrowings represent interest-free loans received from equity investees.

RUB denominated borrowings – Yukos related primarily include borrowings provided by Yukos Capital S.a.r.l., which bore interest of 9% p.a. and matured at the end of 2007 (see Note 23).

Long-term debt as of December 31 comprises the following:

	2007	2006
Bank loans – foreign currency denominated	9,611	4,826
Bank loans raised for funding the acquisition of OJSC Yuganskneftegaz – US$ denominated	3,737	4,780
Borrowings – US$ denominated	12	30
Borrowings – RUB denominated	20	2
Borrowings – RUB denominated – Yukos related	12	–
Customer deposits – foreign currencies	10	15
Customer deposits – RUB denominated	146	85
Bonds of the subsidiary bank – RUB denominated	24	4
Promissory notes payable	50	22
Promissory notes payable – Yukos related	1,021	–
	14,643	9,764
Current portion of long-term debt	(2,920)	(2,362)
Total long-term debt	11,723	7,402

The interest rates on the Company's long-term bank loans denominated in foreign currencies range from 4.35% p.a. to 7.73% p.a. Weighted average interest rates on these loans were 5.22% and 5.96% (LIBOR plus 0.62%, LIBOR plus 0.64%) as of December 31, 2007 and December 31, 2006, respectively. These bank loans are primarily secured by contracts for the export of crude oil.

In May 2007, the Company signed a loan agreement with the syndicate of international banks for US$ 2 billion with a term of five years and a cost of LIBOR plus 0.5% p.a. for the first three years and LIBOR plus 0.575% p.a. for the remaining two years. Additional syndication under this loan agreement resulted in an increase of the facility to US$ 3.1 billion in July 2007. The funds raised were used to refinance part of the bridge facilities raised earlier in 2007 for acquisitions. These borrowings are included within Bank loans – foreign currency denominated in the table above.

In January 2006, a subsidiary of the Company registered in Cyprus signed a loan agreement with a major international bank for an amount of Euro ("EUR") 188 million (US$ 275 million using the CBR rate as of December 31, 2007). The loan bears interest at the European Interbank Offering Rate ("EURIBOR") plus 0.35% p.a. As of December 31, 2007, the drawdown amount was of EUR 158 million (US$ 231 million using the CBR rate as of December 31, 2007). Funds borrowed are to be invested in the construction of three twin-hull shuttle oil tankers for crude oil transportation purposes in north-western regions of the Russian Federation (See Note 14). The loan is scheduled to be repaid within the twelve years following the completion of tanker construction. This borrowing is included within Bank loans – foreign currency denominated in the table above.

As of December 31, 2007 the bank loans raised for funding the acquisition of OJSC Yuganskneftegaz represent a long-term loan obtained through a government-owned bank at a rate of LIBOR plus 0.7% p.a. repayable in equal monthly installments. It is scheduled for repayment in 2011 in full. This loan is secured by the Company's receivables under a long-term contract for the supply of crude oil (see Note 23).

Customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary bank, denominated in RUB and foreign currencies. The RUB-denominated deposits bear interest rates ranging from 3.0% p.a. to 12.7% p.a. Deposits denominated in foreign currencies bear interest rates of 5.75%-12.98% p.a.

Promissory notes payable represent interest-free promissory notes which mature primarily in 2009. The promissory notes are recorded at amortized cost.

Promissory notes payable – Yukos related represent financing originally received from the entities that were related to Yukos on the debt issue date. The promissory notes bear interest rates ranging from 0% to 12% p.a and mature primarily in 2008-2009. The promissory notes are recorded at amortized cost.

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

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 OJSC Yuganskneftegaz in December 2004, and the resulting debt incurred and assets and liabilities, including contingent liabilities, consolidated, the Company was not in compliance with various financial and other covenants of existing loan agreements as of December 31, 2004.

In July 2005, the creditors waived violations related to restrictive financial ratios and agreed to amend the financial ratio covenants in line with the Company's new structure and new scope of activities. The creditors also waived other events of default arising from the breach of other covenant provisions. Effective January 1, 2007, the creditors granted amendments to the loan agreements which remove these provisions and have included new provisions 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 OJSC Yuganskneftegaz's tax liabilities by January 3, 2008 (see Note 23);
- pay any arbitration award relating to Moravel Litigation (see Note 23) or the Yukos Capital S.a.r.l. (further "Yukos Capital") Litigation against OJSC Yuganskneftegaz if any such arbitration award is granted by a court of the Russian Federation, within the time frame provided for such payment under Russian Law.

These conditions also apply to certain new borrowings obtained throughout 2007. Additionally, in November 2007, the creditors waived certain possible violations and/or events of default under the loan agreements with respect to the loans payable to Yukos Capital by OJSC Tomskneft VNK and OJSC Samaraneftegaz (see Note 23), effective through January 3, 2009. In December 2007, the Company obtained an extension to the waivers with respect to the condition related to OJSC Yuganskneftegaz's tax liabilities described above, effective through January 3, 2009.

As of December 31, 2007, the Company is in compliance with all restrictive financial covenants contained within its loan agreements.

The scheduled aggregate maturity of long-term debt outstanding as of December 31, 2007 is as follows:

	2007
2008	2,920
2009	4,939
2010	3,577
2011	1,713
2012 and after	1,494
Total long-term debt	14,643

17. Shareholders' Equity

In July 2006, the shareholders of Rosneft undertook an initial public offering of ordinary shares of Rosneft in

Russia, as well as GDRs for these shares on the London Stock Exchange. 1,126 million of the Company's ordinary shares were sold by the Company's shareholders. Additionally, the Company issued 285 million new ordinary shares. As a result of the offering, the Company's proceeds from the sale of new shares amounted to US$ 2,115 million (net of commissions and expenses). The difference between the nominal value of the shares issued (US$ 105 thousand) and the amount received for shares (US$ 2,115,408 thousand) was recognized as additional paid-in capital.

In December 2006, the Federal Tax Service of the Russian Federation registered the change in the Company's share capital, which was increased due to an additional share issue for the purposes of the Share Swap and consolidation of the Merging Subsidiaries (see Notes 1 and 3). The Company's issued ordinary share capital was increased by 1,221 million shares to 10,598 million shares. The fair value of the shares issued was determined to be US$ 9,218 million (see Note 4).The difference between the par value (US$ 456 thousand) and the fair value (US$ 9,218,093 thousand) of the issued shares was recognized as additional paid-in capital of the Company.

In April 2007, a subsidiary of the Company received title to 1 billion ordinary shares (9.44% of common stock) of Rosneft after it had won the auction for the acquisition of the above shares previously owned by Yukos Oil Company. For consolidated financial reporting purposes, the purchase price amounted to RUB 194.05 billion for Rosneft shares, or RUB 194.05 par value (US$ 7.52 billion and US$ 7.52 per share at the CBR exchange rate as of the date of the auction, respectively). These shares were recorded at their purchase price and treated as treasury shares and therefore shown as deduction from shareholders' equity.

In June 2007, the annual general shareholders' meeting approved dividends on the Company's common shares for 2006 in the amount of RUB 14.1 billion (US$ 546 million at the CBR exchange rate as at the date of decision), or RUB 1.33 or US$ 0.05 per share. US$ 499 million of the above related to outstanding shares.

As of December 31, 2007 and 2006, the number of common shares authorized (in addition to shares issued) was 6,333 million. As of December 31, 2007 and 2006, the total amount of shares authorized was 16,931 million.

Result of the Transaction with a Related Party under Common Control

In December 2007, the Company sold 50% of its interests in OJSC Tomskneft VNK, Imushchestvo-Service-Strezhevoy LLC, Strezhevskoy Refinery LLC and OJSC Tomskneftegeofizika and several other companies which had been previously acquired through the auction for the sale of the assets of Yukos Oil Company (see Note 3). The proceeds from the sale amounted to RUB 88.18 billion (US$ 3,570 million at the CBR exchange rate as of the transaction date.) The net result of the sale amounted to US$ 1,745 million, net of income tax effect (US$ 285 million). Since the transaction was executed with a related party under common control, the Company recorded this result, net of income tax effect, as a component of additional paid-in capital.

Upon the completion of the sale, the investment in the above entities remaining with the Company is accounted for using the equity method of accounting (see Note 10).

Amounts Available for Distribution to Shareholders

Amounts available for distribution to shareholders are based on OJSC Oil Company Rosneft's statutory accounts prepared in accordance with Russian accounting standards, which differ significantly from US GAAP (see Note 2). Russian legislation identifies the basis of distribution as the current period consolidated net profit calculated in accordance with statutory accounting standards. According to Russian legislation, dividends cannot exceed the accounting income for the reporting year. However, this legislation and other statutory laws and regulations dealing with distribution rights are open to different legal interpretations.

18. Income and Other Tax Liabilities

Income and other tax liabilities as of December 31 comprise the following:

	2007	2006
Mineral extraction tax	1,084	1,156
Value added tax	214	615
Excise tax	184	73
Personal income tax	24	15
Property tax	23	36
Income tax	651	454
Other	166	123
Total income and other tax liabilities	2,346	2,472

19. Revenue Related Taxes

Revenue related taxes for the years ended December 31 comprise the following:

	2007	2006	2005
Oil and gas sales			
Export customs duty	10,754	9,763	5,322
Petroleum products and processing fees			
Export customs duty	2,278	1,377	942
Total revenue related taxes	13,032	11,140	6,264

Petroleum products sales also include excise taxes which are presented in Note 20.

20. Income and Other Taxes

Income tax expenses for the years ended December 31 comprise the following:

	2007	2006	2005
Current income tax expense	3,848	2,385	1,688
Deferred income tax expense/(benefit)	1,058	(1,845)	(79)
Total income tax expense	4,906	540	1,609

The Company does not file a consolidated tax return, rather each legal entity files separate tax returns with various authorities, primarily in the Russian Federation.

Temporary differences between these consolidated financial statements and tax records gave rise to the following deferred income tax assets and liabilities as of December 31:

	2007	2006
Deferred income tax asset arising from tax effect of:		
Tax loss carry-forward	33	100
Asset retirement obligations	77	60
Property, plant and equipment	50	70
Prepayments and other current assets	15	9
Accounts receivable	27	1,135
Accounts payable and accruals	63	8
Inventories	16	9
Long-term investments	4	6
Other	63	25
Total	348	1,422
Valuation allowance for deferred income tax asset	(135)	(177)
Deferred income tax asset	213	1,245
Deferred income tax liability arising from tax effect of:		
Mineral rights	(3,996)	(3,720)
Other properties, plant and equipment and other	(3,748)	(1,743)
Deferred income tax liability	(7,744)	(5,463)
Net deferred income tax liability	(7,531)	(4,218)

The increase of deferred income tax liability arising from tax effect of mineral rights and oil and gas properties, plant and equipment and other was due to significant asset acquisitions (see Note 3).

The change in deferred income tax asset arising from tax effect of accounts receivable was due to the full repayment of accounts receivable from Yukos Oil Company in 2007.

Classification of deferred taxes:

	2007	2006
Current deferred tax assets	156	1,135
Non-current deferred tax assets	57	110
Current deferred tax liabilities	(118)	(17)
Non-current deferred tax liabilities	(7,626)	(5,446)

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

	2007	2006	2005
Income before income taxes and minority interest	17,789	4,165	6,214
Statutory income tax rate	24.00%	24.00%	24.00%
Theoretical income tax expense	4,269	1,000	1,491
Add / (deduct) tax effect of:			
Change in valuation allowance	(42)	(94)	155
Effect of income tax preferences	(135)	(77)	(128)
Previously unrecognized deferred tax asset	–	(539)	(24)
Adjustments of income tax for prior periods	(36)	(30)	–
Unrecognized income tax benefits	18	–	–
Permanent accounting differences arising from:			
Non-deductible items, net	202	86	45
Foreign exchange effects, net	276	113	(59)
Accrued tax interest	177	–	–
Other	177	81	129
Income taxes	4,906	540	1,609

Effect of income tax preferences, in the above table, represents the impact of lower income tax rates for Rosneft and certain of its subsidiaries under applicable regional laws. These laws provide that the income tax exemptions, ranging from 3.5 to 4%, are granted to the oil and gas producing companies which make capital investments, agreed with regional administrations, within the respective region and participate in various social projects. These exemptions are granted on an annual basis.

As of January 1, 2007 and December 31, 2007 the Company analyzed its tax positions for uncertainties affecting recognition and measurement thereof. Following the analysis, the Company believes that it is more likely than not that all tax positions stated in the income tax return would be sustained upon the examination by the tax authorities. This is supported by the results of the examinations of the income tax returns which have been conducted to date.

During 2007, the tax authorities resumed examinations of the Company's income tax returns for 2004 2005 and for the first nine months of 2006. There are no other tax years or periods prior to 2004 that remain subject to examination.

The following table shows a reconciliation of the beginning and ending unrecognized tax benefits for 2007.

	2007
Unrecognized tax benefits at January 1	–
Increase for tax positions of prior years	12
Increase for tax position of prior years due to 2007 acquisitions	1
Increase for tax position of current year due to 2007 acquisitions	5
Unrecognized tax benefits at December 31	18

The total amount of unrecognized tax benefits that, if recognized, would affect the effective income tax rate is US$ 12 million and nil as of December 31, 2007 and January 1, 2007, respectively.

Accrued liabilities for interest and penalties for income tax totaled US$ 211 million as of January 1, 2007 and US$ 300 million as of December 31, 2007. Interest for income tax in the amount of US$ 89 million were accrued in the consolidated statement of income in 2007.

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

	2007	2006	2005
Mineral extraction tax	9,323	6,342	4,716
Excise tax	861	329	286
Social security	291	154	118
Property tax	186	107	73
Land tax	15	7	14
Transport tax	4	2	2
Other taxes and payments	210	49	117
Total taxes, other than income tax	10,890	6,990	5,326

21. Asset Retirement Obligations

The movement of asset retirement obligations is as follows:

	2007	2006
Asset retirement obligations as of the beginning of the reporting period	748	566
Recognition of additional obligations for new wells	11	16
Accretion expense	78	34
	2007	2006
Increase as a result of changes in estimates	909	132
Acquired liabilities	908	–
Disposed liabilities of OJSC Tomskneft VNK	(521)	–
Spending on existing obligations	(3)	–
Asset retirement obligations as of the end of the reporting period	2,130	748

Asset retirement obligations represent an estimate of costs of wells liquidation, recultivation of sand pits, slurry ponds, disturbed lands and dismantling pipelines and power transmission lines.

Increase as a result of changes in estimates in the amount of US$ 909 is primarily a result of more stringent interpretation of the current environmental and construction legislation with regard to pipeline dismantlement by the respective regulatory bodies.

Russian legislation does not stipulate any funds reservation for purposes of settling asset retirement obligations.

22. Related Party Transactions

In the course of its usual activity, the Company regularly enters into transactions with other enterprises which are directly or indirectly controlled by the Russian Government. Such enterprises are business units of RAO UES, OJSC Gazprom, OJSC Russian Railways, OJSC Sberbank, Vnesheconombank, OJSC Bank VTB, OJSC Gazprombank, OJSC AK Transneft and federal agencies including tax authorities. Management considers these business relations as part of regular activities in the Russian Federation and believes that they will remain unchanged in the normal course of business.

Total amounts of transactions with companies controlled by the Government of the Russian Federation for each of the reporting periods ending December 31, as well as related party balances are provided in the table below:

	2007	2006	2005
Revenues			
Oil and gas sales	99	27	19
Sales of petroleum products and processing fees	218	148	195
Support services and other revenues	13	8	2
	330	183	216
Costs and expenses			
Pipeline tariffs and transportation costs	2,873	2,032	1,305
Other expenses	182	22	1
	3,055	2,054	1,306
Other operations			
Acquisitions of property, plant and equipment	7	87	9
Sale of short-term and long-term investments	–	4	38
Acquisition of short-term and long-term investments	–	14	38
Sale of shares in CJSC Sevmorneftegaz	–	–	1,303
Proceeds from short-term and long term debt	3,654	2,463	1,527
Repayment of short-term and long term debt	5,675	2,104	3,458
Deposits placed	90	374	1,945
Deposits paid	55	499	1,762
Borrowings issued	–	131	574
Repayment of borrowings issued	–	134	574
Interest expense	335	384	487
Interest income	9	25	–
Banking fees	13	13	12
Assets			
Cash and cash equivalents	139	69	376
Accounts receivable and other current assets	106	20	23
Prepayments	239	137	154
Short-term and long-term investments	90	172	180
	574	398	733
Liabilities			
Accounts payable	16	24	4
Short-term and long-term debt (including interest)	5,322	7,282	6,890
	5,338	7,306	6,894

A sale of 50% interest in OJSC Tomskneft VNK to a related party is disclosed in Note 17.

Total amounts of transactions with other related parties, excluding the companies controlled by the Government of the Russian Federation, primarily equity investees and joint ventures, for each of the reporting periods ending December 31, as well as related party balances are provided in the table below:

	2007	2006	2005
Revenues			
Oil and gas sales	34	31	27
Petroleum products and processing fees	158	84	50
Support services and other revenues	103	26	60
	295	141	137
Costs and expenses			
Purchase of oil and petroleum products	621	103	1
Other expenses	179	74	64
	800	177	65
Other operations:			
Acquisitions of property, plant and equipment	30	2	73
Lease payments	–	–	29
Sale of short-term and long-term investments	1	–	514
Acquisition of short-term and long-term investments	8	48	345
Proceeds from short-term and long-term debt	13	33	–
Repayment of short-term and long-term debt	23	51	8
Borrowings issued	64	88	61
Repayment of borrowings issued	24	22	46
Interest expense	3	4	–
Interest income	44	8	–
Dividends received	28	13	19
Assets			
Accounts receivable and other current assets	201	33	13
Prepayments	16	42	–
Short-term and long-term investments	297	121	128
	514	196	141
Liabilities			
Accounts payable	941	193	24
Short-term and long-term debt (including interest)	235	9	2
	1,176	202	26

23. Commitments and Contingencies

Russian Business Environment

Whilst there have been improvements in the Russian economic situation, such as an increase in gross domestic product and a reduced rate of inflation, Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government. In addition laws and regulations, including interpretations, enforcement and judicial processes, continue to evolve in Russia. Other laws and regulations and certain other restrictions producing a significant effect on the Company's industry, including, but not limited to the following issues: rights to use subsurface resources, environmental matters, site restoration, transportation and export, corporate governance, taxation, etc.

Taxation

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

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

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

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

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

During 2005, tax audits of several subsidiaries for the years 2002-2003 took place. The results of these tax audits are currently being appealed with the tax authorities. The Company's management believes that the final outcome of these tax audits will not have any significant negative impact on the Company's consolidated financial position or results of operations.

During 2007, the tax authorities periodically resumed tax audits of the Company's for the years 2004 2005 and for the first nine months of 2006. The Company's management believes that the final outcome of these tax audits will not have any significant impact on the Company's consolidated financial position or results of operations.

The Company provides finance for operations of its subsidiaries by various means which may lead to certain tax risks. The Company's management believes that the related tax positions are sustainable and will not have any significant negative impact on the Company's consolidated financial position or results of operations.

The Company is currently challenging a number of decisions made by the tax authorities to accrue additional VAT and not to reimburse VAT paid to suppliers in the amount of RUB 11,583 million (US$ 472 million at the CBR exchange rate as of December 31, 2007). The claims of RUB 9,838 million (US$ 401 million at the CBR exchange rate as of December 31, 2007) have been upheld by various courts, however they are subject to further appeal by the tax authorities. The claims of RUB 774 million (US$ 32 million at the CBR exchange rate as of December 31, 2007) have not been upheld by the courts, however the Company has the right and intends to appeal them vigorously. The remaining claims of RUB 971 million (US$ 40 million at the CBR exchange rate as of December 31, 2007) are still being heard in the courts.

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

As of December 31, 2007, the Company's subsidiaries which were acquired at the auctions, described in Note 3, have various disputes with tax authorities for the total amount of US$ 99 million, US$ 51 million of which were recorded within income and other tax liabilities.

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 of 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 February and March 2008, the Company received a signed resolution of the Government of the Russian Federation and relevant regional and local authorities regarding the restructuring of the respective tax liabilities. The total restructured tax liabilities amounted to RUB 57.3 billion (US$ 2,336 million at the CBR exchange rate as of December 31, 2007), of which tax arrears amount to RUB 32.8 billion (US$ 1,336 million at the CBR exchange rate as of December 31, 2007), and interest and penalties amount to RUB 24.5 billion (US$ 1,000 million at the CBR exchange rate as of December 31, 2007). Under the tax restructuring plan, the outstanding tax liabilities shall be repaid quarterly within five years starting from March 2008 pursuant to the repayment schedule stated therein. Consequently, US$ 2,146 million has been reclassified into other non-current liabilities in the consolidated balance sheet as of December 31, 2007. The Company intends to undertake all possible actions to comply with the tax restructuring plan in full.

Other Non-current Liabilities

Other non-current liabilities as of December 31 comprise the following:

	2007	2006
Restructured tax liabilities	2,146	–
Long-term lease obligations	147	4
Deferred income	115	132
Liabilities to municipalities under amicable agreements	48	–
Other	29	24
Total non-current liabilities	2,485	160

Capital Commitments

The Company and its subsidiaries are engaged in ongoing capital projects for exploration and development of production facilities and modernization of refineries and the distribution network.

The budgets for these projects are generally set on an annual basis. Depending on the current market situation, actual expenditures may vary from the budgeted amounts.

It is planned that future costs will be primarily self-financed. In addition, the Company is seeking external sources of financing. Management believes that the Company will receive all the financing required to complete both existing and scheduled projects.

Environmental Matters

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

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

Legislation that regulates environmental protection in the Russian Federation is evolving, and the Company evaluates its liabilities in accordance therewith.

Currently it is not possible to reasonably estimate the liabilities of the Company which may be incurred should the legislation be amended.

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

Social Commitments

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

The Company incurred US$ 55 million, US$ 64 million, and US$ 66 million in social infrastructure and similar expenses in 2007, 2006 and 2005, respectively. These expenses are presented as other expenses in the consolidated statements of income.

Charity and Sponsorship

During 2007, 2006 and 2005, the Company made donations of US$ 117 million, US$ 41 million, and US$ 25 million, respectively, for charity and sponsorship in various regions of Russia where the Company operates. These expenses are presented as other expenses in the consolidated statements of income.

Pension Plans

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

The Company contributes to corporate pension fund to finance non-state pensions of its employees. These payments are made based on the defined contribution plan. In 2007, 2006 and 2005, the Company made contributions to non-state corporate pension fund amounting to US$ 67 million, US$ 41 million, and US$ 16 million, respectively.

In 2007, the Company paid special termination benefits to the retiring employees in the amount of US$ 12.7 million.

Insurance

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

As of December 31, 2007 and 2006, the amount of coverage on assets for such insurance was US$ 11,706 million and US$ 2,209 million, respectively.

Guarantees and Indemnity

As of December 31, 2007, the Company has provided guarantees for certain debt agreements of its subsidiaries. In accordance with the debt agreements, the Company is obliged to perform on the guarantee and to pay all amounts of outstanding guaranteed liabilities, including interest.

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

In January 2007, the Company signed a guarantee agreement in respect of all the obligations of CJSC Vankorneft per the irrevocable documentary letter of credit for the amount of US$ 62 million and for the period of up to 730 days. In the event of default, as specified in the agreement, the bank may request the Company to place a deposit in the amount necessary to ensure all of the Company's existing and potential obligations are payable for the period of validity of such letter of credit.

In January 2007, RN-Yuganskneftegaz LLC signed a guarantee agreement in respect of all the obligations of RN Energo LLC, the Company's wholly owned subsidiary, under the contract for electricity supply with OJSC Tyumenskaya Energosbytovaya Companiya for the period through January 31, 2010, in the amount of US$ 58 million.

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

Yukos Capital Litigation

Yukos Capital, a subsidiary of Yukos Oil Company, initiated arbitral proceedings against OJSC Yuganskneftegaz before the International Court of Commercial arbitration ("ICCA") at the Russian Federation Chamber of Commerce and Industry alleging default under four rouble-denominated loans. The ICCA issued its decisions on September 19, 2006 ruling in favor of Yukos Capital and awarding damages to Yukos Capital, including accrued interest and arbitration costs, in the total amount of RUB 12,937 million (approximately US$ 527 million at the CBR exchange rate at December 31, 2007). The Company challenged the ICCA ruling in the Arbitration Court of Moscow. On May 23, 2007, the Moscow Arbitration Court satisfied the Company's petition on the discharge of the ICCA decisions and invalidated the ICCA decisions. Yukos Capital appealed the decisions of the first instance court to a cassation court. On August 13, 2007, the cassation court upheld the decisions of the lower court and rejected Yukos Capital's claims. On December 10, 2007 the Supreme Arbitration Court of Russia upheld the decisions of the lower courts and rejected Yukos Capital's claims. In executing the ICCA decisions against the Company in the Netherlands, on December 19, 2006, the Amsterdam Court, acting on a petition of Yukos Capital, issued an attachment order against the Company with respect to certain receivables. On December 11, 2007, the Amsterdam Court examined Yukos Capital's petition on enforcement of the ICCA decisions in the Netherlands and on February 28, 2008 ruled against enforcement of the said ICCA decisions in the Netherlands. Yukos Capital has the right to appeal this ruling until April 29, 2008.

In addition, Yukos Capital initiated arbitral proceedings against OJSC Tomskneft VNK before the International Court of Arbitration at the International Chamber of Commerce ("ICC") alleging default under three rouble-denominated loans. On February 12, 2007, the ICC International Court of Arbitration ruled in favor of Yukos Capital and issued an award to Yukos Capital, including US$ 275 million of principal, interest, damages and arbitration costs. In addition, the award amount accrues interest at 9% p.a. to the date of payment. No enforcement proceedings have been initiated in Russia (or elsewhere).

In January 2006, Yukos Capital initiated arbitral proceedings against OJSC Samaraneftegaz before the ICC International Court of Arbitration alleging default under two rouble-denominated loans and claiming early redemption of these loans and accrued interest. On August 15, 2007, the ICC ruled in favor of Yukos Capital and issued an award to Yukos Capital, including US$ 121 million of principal, interest, arbitration and legal costs. In addition, the principal and interest amounts awarded to Yukos Capital against OJSC Samaraneftegaz accrue interest at 9% p.a. to the date of payment. No enforcement proceedings have been initiated in Russia (or elsewhere).

A subsidiary of Rosneft that holds shares in OJSC Tomskneft VNK and OJSC Samaraneftegaz has filed claims in Russia seeking to have OJSC Tomskneft VNK's and OJSC Samaraneftegaz's loans described above declared void as a matter of Russian law. Preliminary hearings on the claim by Rosneft's subsidiary against Yukos Capital and OJSC Tomskneft VNK were rescheduled for the summer 2008. Preliminary hearings on the claim by the Rosneft's subsidiary against Yukos Capital and OJSC Samaraneftegaz are scheduled for May 28, 2008.

Rosneft shareholder has filed claims seeking to have OJSC Yuganskneftegaz loans from Yukos Capital described above declared void as a matter of Russian law. Preliminary hearings on the claim by the shareholder of Rosneft against Yukos Capital and Rosneft were rescheduled for April 9, 2008.

The Company believes that any payment in excess of US$ 728 million, being the carrying amount of the respective loans (see Note 16), is remote.

Other Litigations, Claims and Assessments

The Company is a co-defendant in the litigation in the United States of America in respect of the acquisition of OJSC Yuganskneftegaz. This litigation was brought by certain holders of American Depository Receipts (ADR) of Yukos Oil Company seeking unspecified damages due to the fall in the market value of the ADRs. On July 13, 2006, plaintiffs filed an amended complaint. The amended complaint seeks to recover alleged losses resulting from events surrounding Yukos Oil Company, including levying of taxes upon Yukos Oil Company by the Russian Federation and the arrest of certain assets of Yukos Oil Company to pay owed taxes. Defendants filed motions to dismiss the claim on numerous grounds. On November 26, 2007, the United States District Court for the District of Columbia, granted motions to dismiss Rosneft, its officers and other defendants from the action on jurisdictional grounds. The appeal term for these dismissals has expired.

The Company is also a co-defendant in litigation in the Moscow Arbitration Court with respect to the auction for the common shares of OJSC Yuganskneftegaz. This litigation was brought by Yukos Oil Company. The claimant is seeking to recover all the common shares of OJSC Yuganskneftegaz and also damages in the total amount of RUR 388 billion (US$ 15.8 billion at the CBR exchange rate as of December 31, 2007). In February 2007, the Moscow Arbitration Court dismissed Yukos Oil Company's claim and the dismissal was upheld on appeal on May 30, 2007. This ruling was also upheld in cassation court on October 12, 2007. Yukos Oil Company was liquidated on November 21, 2007 therefore the probability of further litigation is negligible.

In September 2007, Ecolnat Prim, a Moldavian company acting on behalf of a company called New Century Securities Management Anstald ("New Century Securities", Principality of Liechtenstein), filed a claim in the District Economic Court of Chisinau in Moldova against the OJSC Angarsk Petrochemical Company, Fericire-Faleshti SRL and LLC Metmar regarding repayment under a promissory note, which was alleged to have been issued by OJSC Angarsk Petrochemical Company in 1996, this being denied by OJSC Angarsk Petrochemical Company, for the aggregate amount of US$ 446 million, including principal, interest and penalties. New Century Securities earlier initiated court proceedings against the OJSC Angarsk Petrochemical Company and AKB Rostrabank demanding payment of the principal amount, interest and penalties under this promissory note in Russia. Although the first instance court ruled in favor of New Century Securities in 2005, the appellate court, the cassation court and the Supreme Arbitration Court of Russia dismissed the claim by New Century Securities during 2006-2007 based on the failure of New Century Securities to provide the original of the promissory note to the first instance court. On July 17, 2007, the Constitutional Court of Russia rejected the claim by New Century Securities challenging the compliance of certain rules of both Russian substantive and procedural law with the Constitution of the Russian Federation. On December 24, 2007, the court proceedings in respect of the claim by Ecolnat Prim relating to the Angarsk Refinery Promissory Note were terminated. This decision is subject to appeal. Rosneft plans to vigorously contest the claim by Ecolnat Prim and believes that the risk of any negative outcome is remote.

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

Licence Agreements

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

Oil Supplies

In January 2005, the Company entered into a long-term contract for the term through 2010 with China National United Oil Corporation for export of crude oil in the total amount of 48.4 million tons to be delivered in equal annual amounts. The prices are determined based on usual commercial terms for crude oil deliveries (See Note 16).

24. Segment Information

Presented below is information about the Company's operating segments in accordance with SFAS 131, *Disclosures about Segments of an Enterprise and Related Information*. The Company determines its operating segments based on the nature of their operations. The performance of these operating segments is assessed by management on a regular basis. The exploration and production segment is engaged in field exploration and development and production of crude oil and natural gas. The refinery, marketing and distribution segment is engaged in processing crude oil and other hydrocarbons into petroleum products, as well as purchasing, sale and transportation of crude oil and petroleum products. Corporate assets are allocated between Exploration and production and Refining, marketing and distribution in proportion to sales of these segments. Drilling services, construction services, banking and finance services, and other activities are combined in All other. Substantially all of the Company's operations are conducted in the Russian Federation. Further, the geographical regions within the Russian Federation have substantially similar economic and regulatory conditions. Therefore, the Company has not presented any separate geographical disclosure.

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

Operating segments in 2007:

	Exploration and production	Refining, marketing and distribution	All other	Total elimination	Consolidated
Revenues from external customers	2,145	46,631	440	–	49,216
Intersegmental revenues	9,788	2,197	2,104	(14,089)	–
Total revenues	11,933	48,828	2,544	(14,089)	49,216
Operating expenses and cost of purchased oil and petroleum products	2,634	2,472	374	–	5,480
Depreciation, depletion and amortization	2,828	374	84	–	3,286
Operating income	4,980	18,052	1,778	(14,089)	10,721
Total other income, net					7,068
Income before income tax and minority interest					17,789
Total assets	41,888	25,445	7,472	–	74,805

Operating segments in 2006:

	Exploration and production	Refining, marketing and distribution	All other	Total elimination	Consolidated
Revenues from external customers	442	32,460	197	–	33,099
Intersegmental revenues	10,465	1,287	903	(12,655)	–
Total revenues	10,907	33,747	1,100	(12,655)	33,099
Operating expenses and cost of purchased oil and petroleum products	1,670	1,635	212	–	3,517
Depreciation, depletion and amortization	1,420	201	17	–	1,638
Operating income	2,126	15,367	766	(12,655)	5,604
Total other expenses, net					(1,439)
Income before income tax and minority interest					4,165
Total assets	33,934	10,757	2,099	–	46,790

Operating segments in 2005:

	Exploration and production	Refining, marketing and distribution	All other	Total elimination	Consolidated
Revenues from external customers	378	23,151	334	–	23,863
Intersegmental revenues	9,534	797	297	(10,628)	–
Total revenues	9,912	23,948	631	(10,628)	23,863
Operating expenses and cost of purchased oil and petroleum products	1,333	863	64	–	2,260
Depreciation, depletion and amortization	1,320	143	9	–	1,472
Operating income	1,781	13,902	467	(10,628)	5,522
Total other income, net					692
Income before income tax and minority interest					6,214
Total assets	23,005	5,841	1,170	–	30,016

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

	2007	2006	2005
Oil and gas sales			
Export sales of crude oil – Europe	19,876	15,888	11,489
Export sales of crude oil – Asia	6,255	5,145	2,303
Export sales of crude oil – CIS	2,220	1,620	1,491
Export sales of crude oil – other directions	691	435	94
Domestic sales of crude oil	521	214	600
Domestic sales of gas	339	197	175
Total oil and gas sales	29,902	23,499	16,152
Petroleum products and processing fees			
Export sales of petroleum products – Europe	5,875	3,152	2,827
Export sales of petroleum products – Asia	3,489	1,941	1,618
Export sales of petroleum products – CIS	338	202	64
Domestic sales of petroleum products	8,672	3,953	2,865
Sales of petrochemical products	113	–	–
Processing fees	44	2	–
Total petroleum products and processing fees	18,531	9,250	7,374

During the reporting periods, the Company had one customer in 2007, three customers in 2006 and one customer in 2005, all being international oil traders which accounted for 10% or more of total revenues. These customers accounted for revenues of US$ 8,046 million, US$ 18,001 million, and US$ 5,041 million or 16%, 54% and 21% of total revenues, respectively. These revenues are recognized mainly under the Refining, Marketing and Distribution segment. Management does not believe that the Company is dependent on any particular customer.

25. Fair Value of Financial Instruments and Risk Management

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

The fair value of cash and cash equivalents, held to maturity securities, accounts receivable and accounts payable, other current assets, approximates their carrying value recognized in these financial statements. The Company’s management believes that accounts receivable recorded net of allowance for doubtful accounts will be recovered in full during an acceptable time period. The fair value of long-term debt differs from the amounts recognized in the consolidated financial statements. The estimated fair value of long-term debt discounted using the estimated market interest rate for similar financial liabilities amounted to US$ 14,911 million and US$ 9,710 million as of December 31, 2007 and 2006, respectively. These amounts include all future cash outflows related to the repayment of long-term loans, including their current portion and interest expenses.

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

The Company enters into contracts to economically hedge certain of its risks associated with ruble appreciation and increased interest expense accrued on loans received by the Company but these contracts are not accounted for as hedges pursuant to SFAS 133.

During 2007, the Company entered into forward and option foreign currency contracts to hedge its foreign currency risk of forecasted operating expense. These financial exposures are managed as an integral part of the Company's risk management program, which seeks to reduce the potentially adverse effect that the volatility of the exchange rate markets may have on operating results. Presently, the maximum term over which the Company has economically hedged exposures to the variability of the currency exchange rates under its derivative instruments is 3 months.

As a result of the above mentioned forward and option foreign currency contracts entered in 2007, the fair value of forward and option contracts in the amount of US$ 61.9 million was recorded as prepayments and other current assets in the consolidated balance sheet as of December 31, 2007 and the change in fair value was recognized as a foreign exchange gain in the amount of US$ 47.1 million in the consolidated statement of income, net of tax effects.

In December 2007, the Company entered into a five year interest rate swap contract with a notional amount of US$ 3 billion. Under the terms of the contract, a floating LIBOR rate may be converted into a certain fixed rate. The other party has a call option to terminate. The fair value of the interest swap contract was recorded in the consolidated balance sheet as of December 31, 2007 as other current liabilities in the amount of US$ 13.5 million. The change in fair value was recorded in the consolidated statement of income as a component of interest expense in the amount of US$ 13.5 million.

Fair values of foreign currency forward and option contracts, and interest rate swap contracts are based on estimated amounts that the Company would pay or receive upon termination of the contracts as of December 31, 2007.

26. Subsequent Events

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.

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 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.

In February 2008, the Company raised a syndicated loan for US$ 3.0 billion that was provided by the 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 were mainly used to refinance a portion of the bridge financing (See Note 16).

In February 2008, the Company bought 237,572 additional ordinary shares of OJSC Verhnechonskneftegaz for RUB 285 million (US$ 11.7 million at the CBR exchange rate as of the transaction date). Through this purchase the Company maintained its previous share of 25.94% in this investment.

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 made all scheduled planned repayments under its various banking facilities of US$ 0.57 billion, representing the total scheduled maturities for the first quarter of 2008.

Supplementary Oil and Gas Disclosure (unaudited)

In accordance with SFAS 69, Disclosures about Oil and Gas Producing Activities, the Company makes certain supplemental disclosures about its oil and gas exploration and production operations. While this information was developed with reasonable care and disclosed in good faith, it is emphasized that the data represents management's best estimates. Accordingly, this information may not necessarily represent the current financial condition of the Company and its expected future financial results.

All of the Company's activities are conducted in Russia, which is considered as one geographic area.

Capitalized Costs Relating to Oil and Gas Producing Activities

As of December 31	2007	2006
Oil and gas properties related to proved reserves	43,708	34,259
Oil and gas properties related to unproved reserves	4,165	3,878
Total	47,873	38,137
Accumulated depreciation, depletion and amortization, and valuation allowances	(7,942)	(5,178)
Net capitalized costs	39,931	32,959

The share of the Company in the capitalized costs of equity investees on December 31, 2007 and December 31, 2006 was US$ 2,331 million and US$ 388 million, respectively. Net book value of mineral rights on December 31, 2007 and December 31, 2006 was US$ 17.7 billion and US$ 18.4 billion, respectively.

Cost Incurred in Oil and Gas Property Acquisition, Exploration and Development Activities

	2007	2006	2005
Acquisition of proved oil and gas properties	4,825	8,392	3,475
Acquisition of unproved oil and gas properties	287	2,350	487
Exploration costs	162	193	164
Development costs	4,624	2,795	1,606
Total costs incurred	9,898	13,730	5,732

The share of the Company in acquisition, exploration and development expenditures of its equity investees was US$ 440 million and US$ 46 million in 2007 and 2006, respectively, and was not significant during 2005.

Results of Operations for Oil & Gas Producing Activities

	2007	2006	2005
Revenues:			
External sales	15,896	11,246	9,313
Transfers to other operations	11,006	5,216	4,416
Total revenues	26,902	16,462	13,729
Production costs (excluding production taxes)	2,638	1,632	1,333
Selling, general and administrative expenses	729	480	229
Exploration expenses	162	193	164
Accretion expense	78	34	35
Depreciation, depletion and amortization	2,828	1,420	1,426
Taxes other than income tax	9,772	6,636	4,735
Income tax	2,173	1,384	1,274
Results of operation for producing activities	8,522	4,683	4,533

In prior periods the Company presented revenues within results of operations for oil and gas producing activities consistent with those presented in the Company's operating segment disclosure. In 2007 and 2006, the Company changed the presentation of results of operations for oil and gas producing activities for all periods presented to include revenues based on market prices determined at the point of delivery from production units. The presentation of results of operations for previous reporting periods was changed accordingly.

The Company's share in the results of operations for oil and gas production of equity investees in 2007, 2006 and 2005 was US$ 256 million, US$ 59 million and US$ 35 million, respectively.

Reserve Quantity Information

For the purposes of evaluation of reserves as of December 31, 2007, 2006 and 2005 the Company used the oil and gas reserve information prepared by DeGolyer and MacNaughton, independent reservoir engineers, prepared in accordance with United States Securities and Exchange Commission definitions. Proved reserves are those estimated quantities of crude oil and gas which, by analysis of geological and engineering data, demonstrate with reasonable certainty to be recoverable in the future from existing reservoirs under the existing economic and operating conditions. In certain cases, recovery of such reserves may require considerable investments in wells and related equipment. Proved reserves also include additional oil and gas reserves that will be extracted after the expiry date of licence agreements or may be discovered as a result of secondary and tertiary extraction which have been successfully tested and checked for commercial benefit. Proved developed reserves are the quantities of crude oil and gas expected to be recovered from existing wells using existing equipment and operating methods.

Proved undeveloped oil and gas reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage are limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Under no circumstances are estimates of proved undeveloped reserves attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless those techniques have been proved effective by actual tests in the area and in the same reservoir. Due to inherent industry uncertainties and the limited nature of deposit data, estimates of reserves are subject to change as additional information becomes available.

The Company included in proved reserves those reserves which the Company intends to extract after the expiry of the current licences. The licences for the development and production of hydrocarbons currently held by the Company generally expire between 2009 and 2031, and the licences for the most important deposits expire between 2013 and 2019. In accordance with the effective version of the law of the Russian Federation, *On Subsurface Resources* (the "Law"), licences are currently granted for a production period determined on the basis of technological and economic criteria applied to the development of a mineral deposit which guarantee rational use of subsurface resources and necessary environmental protection. In accordance with the Law and upon gradual expiration of old licences issued under the previous version of the Law, the Company extends its hydrocarbon production licences for the whole productive life of the fields. Extension of the licences depends on both current and future compliance with the terms set forth in the licence agreements. As of the date of these financial statements, the Company is generally in compliance with all the terms of the licence agreements and intends to continue complying with such terms in the future (see Note 11).

The Company's estimates of net proved oil and gas reserves and changes thereto for the years ended December 31, 2007, 2006 and 2005 are shown in the table below and expressed in million barrels of oil equivalent (oil production data was recalculated from tonnes to barrels using a ratio of 7.3 barrels per tonne, gas production data was recalculated from cubic meters to barrels of oil equivalent using a ratio of 35.3/6 cubic meters per barrel):

	2007	2006	2005
	mln. boe.	mln. boe.	mln. boe.
Beginning of year reserves	12,671	11,813	12,744
Revisions of previous estimates	62	1,142	(373)
Extension and discovery of new reserves	558	297	63
Acquisitions of new properties	1,039	74	–
Production	(792)	(655)	(621)
End of year reserves	13,538	12,671	11,813
Of which:			
Proved reserves under PSA Sakhalin 1	62	71	–
Proved developed reserves	10,456	9,891	8,507
Minority interest in total proved reserves	22	15	2,393
Minority interest in proved developed reserves	15	15	1,732

The Company's share in the proved reserves of equity investees in 2007, 2006 and 2005 was 915 million barrels of oil equivalent, 330 million barrels of oil equivalent and 46 million barrels of oil equivalent, respectively.

The Company's share in the proved developed reserves of equity investees in 2007, 2006 and 2005 was 689 million barrels of oil equivalent, 281 million barrels of oil equivalent and 45 million barrels of oil equivalent, respectively.

The minority interest in proved developed and total proved reserves in 2005 mainly relates to OJSC Yuganskneftegaz.

Standardized Measure of Discounted Future Net Cash Flows and Changes therein Relating to Proved Oil and Gas Reserves

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

Discounted future net cash flows are calculated using a 10% discount factor. Discounting requires a year-by-year estimates of future expenditures to be incurred in the periods when the reserves will be extracted.

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

	2007	2006	2005
Future cash inflows	551,015	308,051	274,619
Future development costs	(20,656)	(16,426)	(12,507)
Future production costs	(261,712)	(154,045)	(80,564)
Future income tax expenses	(64,589)	(31,991)	(43,291)
Future net cash flows	204,058	105,589	138,257
Discount of estimated timing of cash flows	(121,681)	(64,019)	(87,100)
Discounted value of future cash flows as of the end of year	82,377	41,570	51,157

	2007	2006	2005
Discounted value of future cash flows as of the beginning of year	41,570	51,157	29,176
Sales and transfers of oil and gas produced, net of production costs and taxes other than income taxes	(12,154)	(7,714)	(7,432)
Changes in price estimates, net	45,039	(22,018)	26,798
Changes in future development costs	(3,693)	(4,084)	3,471
Development costs incurred during the period	4,500	2,795	1,752
Revisions of previous reserves estimates	2,207	4,034	1,097
Discovery of new reserves, less respective expenses	3,213	1,177	115
Net change in income taxes	(11,761)	3,580	(5,743)
Accretion of discount	4,157	5,116	2,918
Purchase of new oil and gas fields	7,395	1,464	–
Other	1,904	6,063	(995)
Discounted value of future cash flows as of the end of year	82,377	41,570	51,157

The Company's share in the discounted value of future cash flows related to the oil and gas reserves of equity investees in 2007, 2006 and 2005 was US$ 9,324 million, US$ 1,086 million and US$ 549 million, respectively.

Discounted value of future cash flows as of December 31, 2007, 2006 and 2005 includes the interest of other (minority) shareholders in the amount of US$ 114 million, US$ 25 million and US$ 10,574 million, respectively.

Appendix 2


250 .780 .850 260
206 .330 .375 65
175 .630 .760 150
100 .210 .380 119
100 .320 .600 535
10 .535 .540 470
220 .050 .200 10

Audit Report

On Financial (Accounting) Statements of Open Joint Stock Company – Rosneft Oil Company for the Period from January 01, 2007 to December 31, 2007 Presented to the Executive Body of Open Joint Stock Company – Rosneft Oil Company

AUDITOR:

Full name: Closed Stock Company – Audit & Consulting Group for Business Systems Development.
Abbreviated (Russian) name: CJSC AKG RBS.
Number and date of State Registration Certificate: No. 970.567 of 20.07.2001.
Location: 107045, Moscow, Ananievsky Side-Street, 4/2, bldg. 1.
Address for correspondence: 115093, Moscow, Lyusinovskaya str., 27, bldg. 3.
Tel: (495) 967-68-38, 967-68-40.
Fax: (495) 967-68-43.

Audit License:

- The Audit License of 25.06.02 No. E 000440 issued pursuant to the Order of the Ministry of Finance of the Russian Federation, approved by Order of 25.06.02 No. 123, valid through 25.06.2012.

Membership in international associations of audit and consulting firms:

- Business Partner of Horwath Business Alliance based on an agreement of 21.05.2007.

Membership in accredited professional auditor associations:

- Institute of Professional Accountants and Auditors of Russia and Territorial institute of Professional Accountants, Certificate of 29.09.04 No. 00386/77.

Membership in other professional associations:

- Association of Russian Banks, Certificate of 19.04.02 No. 1315;
- Moscow Banks Union, Certificate of 30.05.02 No. 398

AUDITED COMPANY:

Full name: Open Joint Stock Company – Rosneft Oil Company.
Abbreviated name: OAO Rosneft Oil Company
Number and date of State Registration Certificate: No. 024537 of 07.12.1995
Location: 115035 Russian Federation, Moscow, Sofiyskaya Embankment, 26/1.

1. We have completed the audit of the attached financial (accounting) statements of OAO Rosneft Oil Company for the period from January 01, 2007 to December 31, 2007 inclusive. OAO Rosneft Oil Company financial (accounting) statements comprise the following:

- Form No. 1 Accounting Balance Sheet;
- Form No. 2 Profit and Loss Statement;
- Form No. 3 Capital Statement;
- Form No. 4 Cash Flow Statement;
- Form No. 5 Attachment to Balance Sheet;
- Information Note.

These statements have been prepared by OAO Rosneft Oil Company Executive Body in accordance with the regulations established by:

- The Federal Law of the Russian Federation of 21.11.1996 No. 129-FZ on accounting (with further amendments and additions);
- Regulation on accounting and accounting statements in the Russian Federation, approved by the Order of the Ministry of Finance of 29.07.1998 No. 34n (with further amendments and additions);
- Regulation on accounting – “Accounting In Organizations” PBU 4/99 (approved by the Order of the Ministry of Finance of the Russian Federation of 06.07.1999 No. 43n);
- Order of the Ministry of Finance of the Russian Federation of 22.06.2003 No. 67n on the forms of organizations accounting statements;

- Accounting Policy of OAO Rosneft Oil Company and other internal accounting regulations.

OAO Rosneft Oil Company financial (accounting) statements shall be viewed as the aggregate of the above forms and Information Note.

2. Executive Body of OAO Rosneft Oil Company is responsible for preparation and presentation of the said financial (accounting) statements. Our responsibility is to express an opinion on reliability of all material aspects of the said statements and compliance of accounting with the applicable laws of the Russian Federation based on the completed audit.

3. We have completed the audit in accordance with:

- the Federal Law of 07.08.2001 No. 119-FZ on audit operations (with further amendments and additions);
- Federal Rules (Standards) of Audit, approved by the Decree of the Government of the Russian Federation of 23.09.2002 No. 696 (with further amendments and additions);
- CJSC AKG RBS rules (standards) of audit.

4. The audit was planned and performed so that we acquire reasonable confidence in the fact that financial (accounting) statements do not contain material misstatements. The audit was performed on selective basis and it included the following:

- testing-based study of evidence supporting the numeric indicators and disclosure of information on financial and economic activity of the audited company in its financial (accounting) statements;
- assessment of compliance with principles and rules of accounting applied for preparation of financial (accounting) statements;
- review of principal assessment indicators obtained by the audited company management during preparation of financial (accounting) statements;
- assessment of presented financial (accounting) statements.

5. We believe the said audit provides sufficient grounds for expression of our opinion on reliability of financial (accounting) statements and compliance of accounting process with the applicable laws of the Russian Federation.

6. In our opinion, OAO Rosneft Oil Company financial (accounting) statements accurately reflect in all material aspects the financial situation as of December 31, 2007 and the results of financial and economic performance for the period from January 01, 2007 to December 31, 2007 inclusive.

Audit Report Date: February 15th, 2008

Deputy General Director
(Skill Certificate No. К 010671, unlimited term)
R.N. Rakshaev

Audit Leader
(Skill Certificate No. К 019100, unlimited term)
L.N. But

Accounting Balance Sheet for 2007	Codes	
Form N1	OKATO	45286596000
	OKOGU	41114
Company: OJSC Rosneft Oil Company	OKPO	00044428
Taxpayer Identification Number	INN	7706107510
Type of activity: Industrial	OKVED	11.10.11 23.20 11.10.2 63.40 60.30.11 51.70 74.14
Legal status and ownership	OKOPF	47
Stated in: thou. RUR	OKFS	12
Place of residence (address): 115035, Moskow, Sofiyskaya emb.,26/1		
	Approved as of	
	Sent (received) as of	

ASSETS	Code of line	Opening balance	Closing balance
1	2	3	4
I. NON-CURRENT ASSETS			
Intangible assets*	110	3 465 315	3 319 970
Fixed assets	120	142 126 180	196 804 121
Construction in progress	130	34 961 039	45 808 663
Long-term financial investment	140	146 701 900	496 516 832
Deferred tax assets	145	294 569	1 376 647
Geological prospecting assets	147	25 705 194	27 241 901
Other non-current assets	150	5 595 618	9 175 092
TOTAL under Section 1	190	358 849 815	780 243 226
II. CURRENT ASSETS			
Stocks	210	12 724 458	24 971 420
including:			
feedstock, raw materials and other similar assets	211	1 181 928	3 807 621
costs of production in progress (distribution costs)	213	344 817	2 811 184
finished goods and goods for resale	214	8 023 997	13 077 581
shipped goods	215	1 189 257	2 997 472
prepaid expenses	216	1 984 459	2 277 562
Input Value Added Tax, Excise tax	220	14 698 686	9 824 806
Accounts receivable (due in more than 12 months after the accounting date)	230	439 704	497 455
Accounts receivable (due within 12 months after the accounting date)	240	330 917 737	208 116 386
including:			
purchasers and clients	241	65 372 642	83 990 362
Short-term financial investments	250	28 395 100	34 758 445
Cash	260	3 503 396	6 009 103
Other current assets	270		
Section II, Total	290	390 679 081	284 177 615
BALANCE (lines 190+290)	300	749 528 896	1 064 420 841

LIABILITIES	Code of line	Opening balance	Closing balance
1	2	3	4
III. EQUITY			
Charter capital	410	105 982	105 982
Own shares bought back from shareholders	411		
Capital surplus	420	113 276 400	113 276 386
Capital reserves	430	5 299	5 299
reserves, formed under constituent documents	432	5 299	5 299
retained profit of the previous periods	460	174 837 294	160 741 732
retained profit (loss) of the accounting period	470		162 021 670
TOTAL under Section III	490	288 224 975	436 151 069
IV. Long-term liabilities			
Loans and borrowings	510	317 517 571	285 967 384
Deferred tax liabilities*	515	2 670 715	5 883 221
Other long-term liabilities	520	107 332	42 428 984
TOTAL under Section IV	590	320 295 618	334 279 589
V. Short-term liabilities			
Loans and borrowings	610	38 790 845	181 164 315
Accounts payable*	620	98 971 722	109 353 861
including:			
suppliers and contractors	621	18 087 593	31 241 084
payroll payable	624	123 398	7 617
payables to state budget funds	625	130	1 506
taxes payable	626	46 429 011	40 593 476
other accounts payable	628	34 331 590	37 510 178
Dividends payable to members (founders)*	630		31 181
Deferred income	640	3 557	3 519
Provision for future expenses and charges	650		212 145
Other short-term liabilities*	660	3 242 179	3 225 162
Total under Section V	690	141 008 303	293 990 183
BALANCE (lines 490+590+690)	700	749 528 896	1 064 420 841

Statement of Valuables Recorded off Balance Sheet			
ITEM	Code of line	Opening balance	Closing balance
1	2	3	4
Rented fixed assets*	910	8 699 718	10 265 073
Goods and material values accepted for storage under obligation	920	2 387 518	780 923
Goods accepted for commision	930	50	2 954 286
Bad debt wtitten off to losses	940	858 126	803 429
Securities for liabilities and payment received	950	113 105 089	476 664 167
Securities for liabilities and payment issued	960	44 626 596	272 466 591
Wear of housing stock	970	3 525	4 516
Wear of outdoor infrastructure and similar assets	980	915	1 728

Vice-President S.I.Makarov
Senior Deputy Chief Accounant N.N.Vovk
February, 15 2008

Profit and Loss Statement for 2007		Codes
Form N2	OKATO	45286596000
Date (yy,mm,dd)		
Company: OJSC Rosneft Oil Company	OKPO	00044428
Taxpayer Identification Number	INN	7706107510
Type of activity: Industrial	OKVED	11.10.11 23.20 11.10.2 63.40 60.30.11 51.70.74.14
Legal status/ownership: Public Joint Stock Company	OKOPF	47
	OKOGU	41114
Stated in: thou. RUR	OKFS	12

Item	Code of line	Accounting Period	Corresponding Prior Period
1	2	3	4
I. Operating revenues and expenses (Net) proceeds from the sale of goods, prducts, works and services (Exclusive of value added tax, excise duties and similar charges)*	10	816 303 533	589 010 932
Cost of sold goods, products, works and services	20	(475 207 650)	(405 941 469)
Gross profit	29	341 095 883	183 069 463
Sales expenses	30	(76 274 594)	(61 872 851)
Administrative expenses	40	(9 549 537)	(7 061 156)
Sales profit (loss) (lines (010-020-030-040))	50	255 271 752	114 135 456
II. Other revenues and expenses			
Interest receivables	60	954 562	1 792 564
Interest payable	70	(26 244 523)	(20 889 057)
Revenues from the shareholdings	80	1 000 938	4 065 400
Revenues from sales or other retirement of other assets	90	39 690 002	12 537 498
Expenses for selling or other retirement of other assets	100	(39 617 819)	(12 854 459)
Taxes payed	110	(2 728 859)	(1 298 817)
Other revenues*	120	57 250 982	175 923 793
Other expenses	130	(43 236 674)	(14 487 093)
Profit (loss) before tax (lines (050+060-070+080+090-100-110+120-130))	140	242 340 361	258 925 285
Deferred tax assets	150	1 107 189	68 367
Deferred tax liabilities	151	(3 235 220)	(2 287 970)
Cost of sold goods, products, works and services	152	(78 190 660)	(44 810 571)
Profit (loss) from activities (140+150-151-152)	160	162 021 670	211 895 111
Amount of profit, derived from writing down reassessment sums of added capital	161		41
Amount of profit, changed as a result of changes in articles of incorporation	162		1 321 464

Item	Code of line	Accounting Period	Corresponding Prior Period
1	2	3	4
Net profit (surplus profit (loss) for the accounting period) (lines (160+161+170-180)	190	162 021 670	213 216 616
For reference only:			
Permanent tax liabilities (assets)	201	-27 001 144	14 394 327
Basic earnings (loss) per share	202	15,29	20,12
Diluted earnings (loss) per share	203		

Breakdown of Certain Profit and Loss Items

Item	Code of line	Accounting Period		Corresponding Period for the Previous Year	
		gain	loss	gain	loss
1	2	3	4	5	6
Income from sale (purchase) of foreign currency (cost of sold (purchased foreign currency)	204	1 526 977 474	(1 523 498 171)	764 614 401	(765 100 276)
Exchange rate differences on foreign currency transactions	205	39 204 291	(18 926 397)	30 435 324	(7 816 675)
Banking serivces	206		(1 785 568)		(1 223 457)
Profit (loss) of the previous years	207	1 008 239	(2 411 693)	681 290	1 677 510
Fines, penalties and forfeits ackhowledged of paid under court decre (arbitration court)	208	56 608	(11 367 794)	141 039 966	(275 494)
Write-off of accounts receivable and payable unrecoverable due to expired limitation period	209	1 052 896	(303 160)	893	(48 764)

Vice-President S.I.Makarov
Senior Deputy Chief Accounant N.N.Vovk
February, 15 2008

Capital Statement for 2007				
		CODES		
		Form №3 OKUD		
Date (yy, mm, dd)				
Company	OJSC Rosneft Oil Company	OKPO 00044428		
Taxpayer Identification Number		INN 7706107510		
Type of activity	Industry	OKVED 11.10,11.23,20.11.10.20.63 40 60 30.11		
Legal status and ownership	OJSC			
		OKOPF/OKFS	47	12
Stated in	thou. RUR	OKEI 384		

I. Changes in Capital

Indicator		Charter capital	Additional capital	Reserve capital	Retained profit (uncovered loss)	Total
Description	Code of line					
1	2	3	4	5	6	7
Balance as of the December 31, of the year preceding the previous one	3010	90 922	151 756 291	1 326 763	68 964 747	222 138 723
2006 (previous year) Change in accounting policy	3011	X	X	X		
Results of fixed assets revaluation	3012	X		X		
Balance as of January 1st of the previous year	3013	90 922	151 756 291	1 326 763	68 964 747	222 138 723
Result of revaluation of foreign currency	3014	X		X	X	
Net income	3015	X	X	X	213 216 616	213 216 616
Dividends	3016	X	X	X	(11 335 500)	(11 335 500)
Asessments to the reserve fund	3017	X	X			
Increase of capital due to:	3018	15 060	85 035 350			85 050 410
additional emission of shares	3019	15 060	X	X	X	15 060
increase in securities nominal value	3020		X	X	X	
restructuring of legal entity	3021		X	X		
Increase in shares value, having its market price	3022	X	26 929 807	X	X	26 929 807
Completion, equipping, reconstruction	3023	X		X	X	
Retained profit. Profit allocated to capital outlay (entry of fixed assets)	3024	X		X	X	

Indicator		Charter capital	Additional capital	Reserve capital	Retained profit (uncovered loss)	Total
Description	Code of line					
1	2	3	4	5	6	7
emission revenue from part of difference between nominal and selling value of a share	3025	X	58 105 543	X	X	58 105 543
Other sources of emission revenue	3026	X		X	X	
Other growth	3027			X		
Decrease in the capital due to:	3028		(123 515 241)	(1 321 464)	(96 270 127)	(221 106 832)
decrease in share nominal value	3029		X	X	X	
decrease in securities number	3030		X	X	X	
Legal entity rearrangement	3031		X	X	(96 270 127)	(96 270 127)
adjustment of shares, having its market value	3032	X		X	X	
increase in value of written-off fixed assets	3033	X	(41)	X	X	(41)
Increase in charter capital	3034	X		X	X	
foreign exchange loss being part of charter capital	3035	X		X	X	
Cover of losses	3036	X			X	
decrease of production development fund with putting of fixed assets into operation	3037	X	X	X		
other decrease	3038		(123 515 200)	(1 321 464)		(124 836 664)
Balance of December 31 of the previous year	3039	105 982	113 276 400	5 299	174 575 736	287 963 417
2007 (reporting year) Changes in accounting policy	3040	X	X	X		
Results from fixed assets revaluation	3041	X		X		
Financial result of revaluation in CU during transition period	3042	X			261 558	261 558
Balance as of January 1, of the register period	3043	105 982	113 276 400	5 299	174 837 294	288 224 975
Result from foreign currency exchange	3044	X		X	X	
Net profit	3045	X	X	X	162 021 670	162 021 670

Indicator		Charter capital	Additional capital	Reserve capital	Retained profit (uncovered loss)	Total
Description	Code of line					
1	2	3	4	5	6	7
Dividends	3046	X	X	X	(14 095 576)	(14 095 576)
Allocation to reserve fund	3047	X	X			
Increase in the capital due to	3048				14	14
additional emission of shares	3049		X	X	X	
growth of nominal price of shares	3050		X	X	X	
reorganisation of legal entity	3051		X	X		
increase in security nominal value	3052			X	X	
Completion, equipping, reconstruction	3053			X	X	
Retained profit. Profit asllocated to capital outlay (entry of fixed assets)	3054			X	X	
emission revenue from part of difference between nominal and selling value of a share	3055			X	X	
Other sources of emission revenue	3056			X	X	
other growth	3057			X	14	14
	3058					
Decrease of capital due to:	3059		(14)			(14)
drop of niminal value of shares	3060		X	X	X	
decrease of quantity of shares	3061		X	X	X	
reorganisation of legal entity	3062		X	X		
drop of value of shares, having market price	3063	X		X	X	
increase in value of written-off fixed assets	3064	X	(14)	X	X	(14)
increase in charter capital	3065	X		X	X	
foreign exchange loss being part of charter capital	3066	X		X	X	
cover of losses	3067	X			X	
decrease of production development fund with putting of fixed assets into operation	3068	X	X	X		
For capital investment, industrial and social development	3069					
	3070					
Balance as of December 31, of the reporting period	3071	105 982	113 276 386	5 299	322 763 402	436 151 069

II. Reserves					
Indicator		Balance	Incoming	Outgoing	Balance
title	Code of line				
1	2	3	4	5	6
Reserves formed as re- quires by the law Reserve fund (title of re- serve)					
Data of the previous year	3072				
Data of the reporting year	3073				
(title of reserve) Data of the previous year	3074				
Data of the reporting year	3075				
Reserves formed as re- quired by Articles of Asso- ciation Reserve fund (title of reserve)					
Data of the previous year	3076	1 326 763		1 321 464	5 299
Data of the reporting year	3077	5 299			5 299
Valuation reserves: Data of the previous year	3078	234 286	427 522	295 340	366 468
Data of the reporting year	3079	366 468	959 600	430 468	895 600
Privisions for future expenses data of the previous year	3080		850 239	850 239	
data of the reporting year	3081		1 366 355	1 154 209	212 146

References					
Index		Balance as of the beginning of the year		Balance as of the end of the year	
title	Code of line				
1	2	3		4	
1) Net assets	3082	288 228 532		436 154 588	
		From budget		From non-budget funds	
		for accounting year	for the previous year	for accounting year	for the previous year
		3	4	5	6
2) Received for: operational activi- ties – total	3083				
including	3084				
	3085				
	3086				

		From budget		From non-budget funds	
		for accounting year	for the previous year	for accounting year	for the previous year
		3	4	5	6
Capital investment in non-current assets	3087				
including:	3088				
	3089				
	3090				

Vice-President S.I.Makarov
Senior Deputy Chief Accountant N.N.Vovk
15 February 2008

Cash Flow Statement for the year 2007	
Company	OJSC Rosneft Oil Company
Type of activity	Industry
Legal status and ownership	Public Joint Stock Company
Stated in	thou. RUR

	Codes
OKUD Form No. 4	0710004
Date (yy, mm, dd)	
OKPO	00044428
INN	7706107510
OKVED	11.10.11 23.20 11.10.2 63.40 60.30.11 51.70.74.14
OKOPF	47
OKFS	12
OKEI	384

Item Description	Code of line	Accounting period	Corresponding Previous Period
1	2	3	4
Opening cash balance	4010	3 503 315	13 710 194
Cash flow from operating activities— total: including	4020	2 963 570 551	1 707 632 656
Received from purchasers, clients	4210	1 104 975 956	884 225 026
Other revenues	4030	1 858 594 595	823 407 630
Cash allocated for— total: including	4040	(2 640 235 448)	(1 695 961 457)
Payment for acquired goods, works, services, raw materials and other current assets	4050	(736 044 541)	(1 524 099 466)
payroll	4060	(3 633 816)	(2 995 400)
payment of dividends and interest	4070	(35 611 045)	(28 594 553)
payment of taxes	4080	(293 066 097)	(112 869 390)
other expenses	4085	(1 571 879 949)	(27 402 648)
Net cash flow from operating activities	4090	323 335 103	11 671 199
Cash flow from investment activities— total: including	4110	2 344 337 625	870 013 627
Proceeds from the sale of fixed assets and other non-current assets	4111	947 038	2 810 348
Proceeds from the sale of securities and other financial investments	4120	2 215 672 211	818 700 248
Dividends received	4130	963 211	1 676 915
Interest received	4140	849 318	935 789
Repayment of loans issued to other entities	4150	109 672 674	45 639 640
Other	4151	16 233 173	250 687
Spent for investment activities— total:	4052	(2 776 804 699)	(989 011 368)
Acquisition of subsidiaries	4160	(28 456 285)	(5 749 449)
Acquisition of fixed assets, incom-bearing investment in tangible assets and intangible assets	4170	(95 755 222)	(43 295 661)
Acquisition of securities and other financial investments	4180	(2 212 994 241)	(816 590 381)
Loans issued to other entities	4190	(438 594 990)	(123 375 877)

Item Description	Code of line	Accounting period	Corresponding Previous Period
1	2	3	4
Other investments	4191	(1 003 961)	
Net cash flow from investment activities	4200	(432 467 074)	(118 997 741)
Cash flow from financial activities – total: including	4210	801 106 705	474 422 659
Proceeds from issue of shares and other equity securities	4220		58 108 394
Proceeds from loans granted to other entities	4230	113 077 337	40 390 706
Proceeds from credits granted to other entities	4250	687 864 368	373 645 028
Other	4260	165 000	2 278 531
Spent for finantial activities – total: including	4280	(689 468 946)	(377 302 915)
Repayment of loans (net of interest)	4290	(46 280 083)	(22 832 156)
Repayment of credits (net of interest)	4300	(631 626 341)	(341 824 705)
repayment of financial lease	4310		
other	4340	(11 562 522)	(12 646 054)
Net cash flow from financial activities	4350	111 637 759	97 119 744
Net increase (decrease) in cash and cash equivalents		2 505 788	(10 206 798)
Closing cash balance	4010	6 009 103	3 503 396
Effect of foreign currency/rouble exchange rate movement	4010	(53 666)	(610 409)

Vice-President S.I.Makarov
Senior Deputy Chief Accountant N.N.Vovk
15 February 2008

Attachment to Balance Sheet for 2007			CODES	
		OKUD form No 5	0710005	
Date (yy, mm, dd)				
Company	OJSC "Rosneft Oil Company"	**OKPO**	00044428	
Taxpayer Identification Number		**INN**	7706107510	
Type of activity	Industrial	**OKVED**	11.10, 11.23, 20.11.10.20.63 40 60 30.11	
Legal status and ownership	Public Joint-Stock Company	**OKOPF/OKFS**	47	12
Stated in	thou. RUR	**OKEI**	384	

Intangible Assets

Item		Opening Balance	Received	Disposed	Closing Balance
Description	Code of line				
1	2	3	4	5	6
Intellectual property items (exclusive rights to the subject matter of intellectual property)	5100	470	1 807	(265)	2 012
Including: Items of a patent holder in relation to an invention, industrial design, utility model	5101	406	4	(265)	145
of a software or database right holder	5102				
of an integrated circuit topography rights holder	5103				
of a holder of a trademark, service mark, geographical indication rights	5104	64	1 803		1 867
Of a holder of a breeder's rights	5105				
Administrative expenses	5106				
Goodwill	5107				
Other	5108	3 762 207	1 067	(48)	3 763 226

Item		Opening balance	Closing balance
Description	Code of line		
1	2	3	4
Intangible assets amortization – total	5109	297 362	445 268
including: (exclusive entitlements for results of intellectual property)	5110	9	110
Administrative expenses	5111		

Fixed Assets

Item		Opening balance	Received	Discharged	Closing balance
Description	Code of line				
1	2	3	4	5	6
Buildings	5113	15 780 331	5 423 641	(700 765)	20 503 207
Installations and transmission units	5114	165 259 941	55 306 219	(420 696)	220 145 464
Plant and machinery	5115	24 417 368	9 488 273	(788 560)	33 117 081
Vehicles	5116	3 553 538	370 116	(78 600)	3 845 054
Production and household inventory	5117	596 646	189 480	(25 125)	761 001
Working livestock	5118				
Productive livestock	5119				
Perennial plants	5120				
Other fixed assets	5121	59 463	18 730	(6 338)	71 855
Land plots and natural assets	5122	157 063	305 328	(670)	461 721
Capital investment in land reclamation	5123				
Total	5124	209 824 350	71 101 787	(2 020 754)	278 905 383

Item		Opening balance	Closing balance
Description	Code of line		
1	2	3	4
Amortization of fixed assets – total	5125	67 698 170	82 101 262
Including: Building and installation	5126	55 716 009	68 103 266
Plant, machinery, vehicles	5127	11 619 544	13 567 918
Other	5128	362 617	430 078
Leased out fixed assets – total	5129	172 759 673	241 612 215
Including: Buildings	5130	11 762 817	15 382 030
Installation	5131	140 578 929	198 118 907
Mothballed fixed assets	5132	11 695 829	12 504 640
Fixed assets taken on lease – total	5133	8 699 718	10 265 073
Including: buildings, vehicles			
Real estate accepted into operation in the process of the state registration	5134	45 945 989	12 665 958
For reference only	Code of line	Opening balance	Closing balance
	2	3	4

Item		Opening balance	Closing balance
Description	Code of line		
1	2	3	4
Effect from revaluation of fixed assets	5135		
Historical (replacement) cost	5136		
Amortization	5137		
Changes in the fixed assets value as a result of additional construction, equipping, revamping, partial liquidation	Code of line	Opening balance	Closing balance
	2	3	4
	5138	1 123 042	4 463 493

Income-Bearing Investments in Tangible Assets

Item		Opening balance	Received	Disposed of	Closing balance
Description	Code of line				
1	2	3	4	5	6
Assets to be transferred under lease arrangements	5139				
Assets to be transferred under rent arrangements	5140				
Other	5141				
Total	5142				
	Code of line	Opening balance	Closing balance		
1	2	3	4		
Amortization of income-bearing investment in tangible assets	5143				

Expenses Associated with Research, Development and Engineering Activities

Activity		Opening Balance	Received	Written-off	Closing balance
Description	Code of line				
1	2	3	4	5	6
Total	5144				
Including:		20 531	13 347	(20 531)	13 347

For reference only	Code	Opening balance	Closing Balance
	2	3	4
Expenses associated with research, development and engineering	5145	20 531	13 347
Expenses associated with research, development and engineering activities which did not pay off and are written-off to non-sale expenses	5146	20 531	

Expenses Associated with Natural Resources Development					
Item		Opening Balance	Received	Written-off	Closing Balance
Description	Code of line				
1	2	3	4	5	6
Expenses associated with natural resources development – total	5147	30 212 126	10 262 441	(4 957 012)	35 517 555
Including:					
Geological prospecting work		4 506 932	8 238 859	(4 470 137)	8 275 654
Geological exploration assets		25 705 194	2 023 582	(486 875)	27 241 901
			Code	Opening Balance	Closing Balance
For reference only			2	3	4
Expenses associated with subsoil plots not completed with exploration evaluation of reserves, prospecting and (or) hydro geological surveys and similar activities			5148	4 506 932	8 275 654
Expenses associated with natural resources development written-off to non-sales expenses in the accounting period as not paying off			5149		820 368

Financial Investments					
Item		Long-term		Short-term	
Description	Code of line	Opening balance	Closing balance	Opening balance	Closing balance
1	2	3	4	5	6
Interest in charter (share) capital of other entities total	5150	60 084 112	97 914 984		102 401
Including subsidiaries	50 566 071	88 479 957			
Associates	51511	8 912 362	9 116 450		
Other organizations	51512	605 679	318 577		102 401
State and municipal securities	5152	3 369	1 013		
Including interest bearing securities		3 369	1 013		
Non-interest bearing securities					
Securities of other entities – total	5153	4 260 406	119 098	1 398 858	2 169 231
including debt securities (bonds	51541	2 678 185			
and bills of exchange)	51542	1 582 221	119 098	1 398 858	2 169 231
Loans issued	5155	81 949 422	398 516 600	9 401 167	19 808 239
Deposits	5156			1 448 210	9 257 760
Investments in joint ventures	51561	487 891	487 891		
Other	5157			16 146 865	3 531 848

Item		Long-term		Short-term	
Description	Code of line	Opening balance	Closing balance	Opening balance	Closing balance
1	2	3	4	5	6
Total	5158	146 785 200	497 039 586	28 395 100	34 869 479
Of the total amount, financial investments quoted at current market value: Interest in charter (share) capital of other entities total	5159	482 357			
Including subsidiaries and associates	5160				
State and municipal securities	5161				
Securities of other entities – total	5162	2 678 185			
Including debt securities (bonds and bills of exchange)	5163	2 678 185			
Other	5164				
Total	5165	3 160 542			
For reference only: For financial investments quoted at current market value, effect of value adjustment	5166	(16 536)			
For debt securities, difference between historical cost and nominal value posted to financial result to the accounting period	5167				

Accounts Receivable and Payable

Item		Opening balance	Closing balance
Description	Code of line		
1	2	3	4
Accounts receivable Short-term – total	5168	331 200 906	208 285 452
Including: Trade receivables	5169	65 372 339	83 994 113
Advances paid	5170	11 107 135	22 468 586
Other	5171	254 721 432	101 822 753
Long – term – total	5172	439 704	590 202
Including: trade receivables	5173		
Advance paid	5174		
Other	5175	439 704	590 202
Total	5176	331 640 610	208 875 654
Accounts payable			

Item		Opening balance	Closing balance
Description	Code of line		
1	2	3	4
Short-term – total	5177	141 004 746	293 743 338
Including: Trade payables	5178	18 087 593	31 241 084
Advances received	5179	5 849 546	7 341 321
Taxes payable	5180	46 429 011	40 594 982
loans	5181	35 554 715	105 205 063
Borrowings	5182	3 236 130	75 959 252
Other	5183	31 847 751	33 401 636
Long-term – total	5184	317 624 903	328 396 368
Including: Loans	5185	278 735 895	248 367 252
Borrowings	5186	38 781 676	37 600 132
Other		107 332	42 428 984
Total	5187	458 629 649	622 139 706

Operating Expenses (by expense items)

Item		Accounting year	Previous year
Description	Code of line		
1	2	3	4
Material expenses	5188	367 877 929	225 083 148
Payroll expenses	5189	2 682 056	2 453 405
Social charges	5190	192 757	157 589
Amortization	5191	15 475 096	5 648 374
Other expenses	5192	174 803 943	63 962 362
Total for expense items	5193	561 031 781	297 304 878
Movement (increase [+], decrease [-]) of: production in progress	5194	2 466 367	85 895
deferred expenses	5195	293 103	237 381
Provision for deferred expenses	5196	(212 145)	

Cover funds

Item		Opening balance	Closing balance
Description	Code of line		
1	2	3	4
Received – total	5197	113 105 089	476 664 167
Including : Bills of exchange	5198	113 086 017	476 645 095
Things in pawn	5199		
From that: Fixed assets	5200		
Securities and other financial assets	5201		
Other	5202		
Issued – total	5203	44 626 596	272 466 591

Item		Opening balance	Closing balance
Description	Code of line		
1	2	3	4
including: bills of exchange	5204	13 893 824	6 000
Things in pawn	5205		
From that: Fixed assets	5206		
Securities and other financial assets	5207		
Other	5208		

<table>
<tr><th colspan="6">Government assistance</th></tr>
<tr><th colspan="2">Item</th><th colspan="2" rowspan="2">Accounting period</th><th colspan="2" rowspan="2">Corresponding Previous Period</th></tr>
<tr><th>Description</th><th>Code of line</th></tr>
<tr><td>1</td><td>2</td><td colspan="2">3</td><td colspan="2">4</td></tr>
<tr><td>Received during the accounting period budgeting funds</td><td>5209</td><td colspan="2"></td><td colspan="2"></td></tr>
<tr><td>Including:</td><td></td><td colspan="2"></td><td colspan="2"></td></tr>
<tr><td></td><td></td><td>beginning of reporting period</td><td>received in reporting period</td><td>repaid in reporting period</td><td>end of period</td></tr>
<tr><td>Budget credits</td><td>5210</td><td colspan="2"></td><td colspan="2"></td></tr>
</table>

Vice-President S.I.Makarov
Senior Deputy Chief Accountant N.N.Vovk
15 February 2008

Appendix 3

Risk Analysis

Rosneft categorizes risk factors in three areas: Industry; Legal; and Financial.

The major part of Rosneft's business activities are concentrated in Russia and thus Rosneft is affected by risks arising from Russian legislation and the Russian business environment. The Company is also subject to some industry-specific risks, which are an integral part of any activities related to hydrocarbon exploration, production, refining and marketing. The financial risks faced by Rosneft are universal to Russian production companies.

Rosneft constantly monitors risks, mitigates their occurrence and probability, and seeks to actively protect the Company's rights and legal interests within the legislative framework.

In the event that one or several of the risks indicated below materialize, Rosneft will work to minimize any negative consequences, using the most appropriate measures in each particular case. However, Rosneft cannot guarantee that such measures will be completely effective, and, as a result, such risks could have a material adverse effect, separately or in combination, on Rosneft's business operations.

Industry Risks

Country and Regional Risks

Substantially all the Company's fixed assets are located in, and a significant portion of its revenues are derived from, Russia. Administrative and economic reforms carried out in the Russian Federation have improved the economic situation in the country and largely contributed to long-term social and political stability, however, shifts in governmental policy and regulation in Russia may be less predictable than in many Western countries. There are certain risks associated with an investment in Russia. Emerging markets, such as Russia, are subject to greater risks than more developed markets, including political, economic, social and legal risks, and financial turmoil in any emerging market could disrupt Rosneft's business.

In addition, the Company is exposed to risks related to its international operations. Currently, Rosneft participates in two exploration works in Kazakhstan and one project in Algeria. Similar to Russia, these are developing economies and so are more prone to political, economic, social and legal risks than more developed markets. Overall, the risks related to carrying out business activities in these countries are comparable or higher than those related to business operations in Russia.

Risks Related to Competition

The oil and gas industry is intensely competitive. Rosneft faces risks related to intensifying competition from national oil and gas companies and supermajors.

Rosneft could face risks connected with increasing competition in respect of: purchase of exploration and production licenses at auctions held by the Russian Government; acquisition of other Russian companies that may already own mineral licenses or other relevant assets; securing leading independent service companies that may have limited capacity to render core services; purchase of equipment for capital projects, which may be in short supply; employment of highly skilled and experienced staff; purchase of existing retail assets and land plots to develop new retail space; and purchase of, or gaining access to, oil refining facilities. Any failure by Rosneft to compete effectively could adversely affect Rosneft's operating results and financial condition.

Operational Risks

Development and exploration projects involve many uncertainties and operational risks that can prevent oil and gas companies from realizing profits and can cause substantial losses. Rosneft's development and exploration projects may be delayed or unsuccessful for many reasons, including cost overruns, lower crude oil and gas prices, delays in the completion of important infrastructure projects, equipment shortages and mechanical difficulties.

Risks Related to Estimation of Prospective and Contingent Resources

Special uncertainties exist with respect to the estimation of prospective and contingent resources. Prospective resources are defined as those deposits that are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations. Contingent resources are defined as those deposits that are estimated, on a given date, to be potentially recoverable from known accumulations, but that are not currently considered commercially recoverable. Substantially all of Rosneft's resources are prospective resources. The probability that prospective resources will be discovered, or be economically recoverable, is considerably lower than for proved, probable and possible reserves. Volumes and values associated with prospective resources should be considered highly speculative.

Exploration Risks

Exploration drilling involves numerous risks, including the risk that oil and gas companies will encounter no commercially productive crude oil or gas reserves. Rosneft is exploring in various geographical areas where environmental conditions are challenging and costs can be high. The cost of drilling, completing and operating wells is often uncertain. As a result, Rosneft may incur cost overruns or may be required to curtail, delay or cancel drilling operations because of many factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, adverse weather conditions, compliance with environmental regulations, governmental requirements and shortages or delays in the availability of drilling rigs and the delivery of equipment. Rosneft's future production depends significantly upon its success in finding or acquiring and developing additional reserves. If Rosneft is unsuccessful, it may not meet its production targets and its total proved reserves and production would decline, which could adversely affect Rosneft's operating results and financial condition.

Risks Related to Reserve Estimates

Crude oil and gas reserves data are only estimates and are inherently uncertain and the actual size of accumulations may differ materially from these estimates. Petroleum engineering is a subjective process of estimating underground accumulations of crude oil and gas that cannot be measured in an exact manner. Estimates of the value and amount of economically recoverable crude oil and gas reserves, rates of production, net present value of future cash flows and the timing of development expenditures necessarily depend upon several variables and assumptions. Furthermore, special uncertainties exist with respect to Russian reserves methodology. The Russian reserves methodology considers geological factors alone and does not take into account the economic feasibility of extraction of reserves. Therefore, all reserve estimates are subjective, and any inaccuracy in reserve data could affect Rosneft's business activities.

Risks Related to Crude Oil, Natural Gas and Oil Product Prices

Rosneft's operating results and financial condition depend substantially upon prevailing global prices of crude oil, gas and petroleum products. Historically, prices of crude oil have fluctuated widely. For the last few years, prices of crude oil and oil products have remained high, however, a downward trend in prices could adversely affect Rosneft's operating results and financial position.

Risks Related to Geographic and Climatic Conditions

Rosneft operates in regions that generally have stable climates and which are not subject to natural hazards and disasters. However, abnormally low temperatures during the winter in a number of northern regions may complicate the work of oil production facilities of the Company.

Risks Related to Gas Production and Marketing

Rosneft is exposed to several risks in connection with sales of the gas it produces. The Unified Gas Supply System (UGSS) is owned and operated by OJSC Gazprom and transports all gas in Russia. Under existing regulations, Gazprom should provide access to UGSS to all internal independent suppliers on an equal basis. However, these regulations may change or OJSC Gazprom may fail to observe the principle of equal access in the future.

OJSC Gazprom is a monopolistic supplier of gas in Russia. The Russian Government regulates prices of gas sold by OJSC Gazprom in Russia. Any increase of the regulated price at a slower-than-expected rate could adversely affect Rosneft's operating results and financial condition.

Further growth in gas output as well as increasing gas sales to independent regional traders and industrial consumers will depend on sufficient access to the UGSS capacity.

Dependence on Monopolistic Providers of Services for Transportation of Oil and Oil Products and Respective Tariffs

Rosneft depends on monopolistic providers for transportation of oil and oil products. The company has no control over the infrastructure that they use and tariffs which they set. OJSC Transneft (Transneft) is a governmental monopoly operating oil pipelines. Any significant disturbance to the Transneft pipeline system or restrictions on access to its capacities could lead to severe disruptions in oil supplies that could adversely affect Rosneft operating results and financial position. Rosneft is obliged to make payments to Transneft for transportation services. Failure to make payments could lead to termination or suspension of the Company's access to the Transneft system and could negatively impact the operating results and financial position of Rosneft. Transneft periodically raises fees for the use of its network, which increases expenses of Rosneft and, accordingly, adversely affects its operating results and financial position.

Rosneft also depends on railway transportation for distribution of crude oil and petroleum products. Use of railway services exposes Rosneft to risks, such as potential failure of deliveries due to deterioration of the Russian Railways infrastructure and increases in transportation tariffs, which would lead to higher costs of crude oil and petroleum product transportation.

Risks Associated with Health, Safety and Environmental Laws and Regulations

Oil and gas companies may incur material costs to comply with, or as a result of, health, safety and environmental laws and regulations. Rosneft incurs, and expects to continue to incur, substantial capital and operating costs in order to comply with increasingly complex health, safety and environmental laws and regulations. Under its exploration and development licenses, Rosneft also must generally commit to limit the level of pollutants that it releases and to undertake remediation in the event of environmental contamination and is subject to regular ecological inspections by Russian state authorities. Rosneft endeavors to comply with applicable environmental laws and regulations, but may not always be in compliance. Although Rosneft does not anticipate any material impact on its operating results and financial position from the current level of pollution and potential clean-up costs, in the future, the costs of measures to comply with environmental regulations and liabilities related to environmental damage caused by Rosneft may increase.

Legal Risks

Risks Related to the Legal Framework and Changes in Legal Practice

The Russian legal framework required by a market economy is still under development. Weaknesses relating to the Russian legal system and Russian law create an uncertain environment for investment and for business activity. Federal laws and decrees, orders and regulations issued by the President, the Government and federal ministries, regional and local rules and regulations, at times, overlap or contradict one another. The recent nature of much of Russian law and the rapid evolution of the Russian legal system result in ambiguities, inconsistencies and anomalies. Other risks of the current Russian legal system include, inter alia, substantial gaps in the regulatory structure due to the delay or absence of implementing legislation, the relative inexperience of certain judges and courts in interpreting new principles of Russian law, particularly business and corporate law, and a high degree of discretion on the part of governmental authorities. The judicial guidance on interpretations of Russian law is limited and decisions of the highest courts have significant impact on the law enforcement process. Rosneft monitors latest trends and changes in the effective legislation and court practice on permanent basis.

Risks Related to Changes in Legislation for Subsoil Resource Use and Licensing

Rosneft faces the risk that its exploration and production licenses may be suspended, amended or terminated prior to the end of their terms, and that Rosneft may be unable to obtain or maintain various permits and authorizations. If the authorities find that Rosneft has failed to fulfil the terms of its licenses, permits or authorizations, or if Rosneft operates in its license areas in a manner that violates Russian law, they may impose fines on Rosneft or suspend or terminate its licenses. Furthermore, Rosneft may have to increase spending to comply with license terms. Any suspension, restriction or termination of Rosneft's licenses could adversely affect the Company's operating results and financial condition.

Rosneft mitigates this risk by building its business in license areas with due regard for the high requirements of the Russian subsoil resource legislation, ensuring license agreements are duly updated as the applicable legislation changes. Rosneft makes continuous efforts to review and assess legislative initiatives of appropriate ministries and departments in connection with legislation on subsoil resources and licensing of relevant types of businesses.

Risks Related to Currency Control Regulations

A portion of Rosneft's assets and liabilities is denominated in foreign currency. Russian currency control regulations may increase costs or hinder Rosneft's ability to conduct its business. Changes in exchange regulation also may affect business operations of the Company. During the period through 2007, significant restrictions on exchange operations were lifted in line with the Government's policy aimed at the liberalization and further improvement of the currency regulation regime. The trend towards the liberalization of exchange regulation reduces the risk of adverse effects on Rosneft's operations with foreign currency. However, Russian currency control laws and regulations still impose a number of limitations on currency operations. In particular, subject to certain exceptions, foreign currency operations between Russian residents are prohibited. These restrictions could increase the cost for the Company of, or prevent the Company from carrying out, necessary business transactions, or from successfully implementing Rosneft's business strategy, which could have an adverse effect on the Company's operating results and financial position.

Risks Related to Changes in Tax Legislation

Rosneft is subject to a broad range of taxes imposed at the federal, regional and local levels, including but not limited to export duties, corporate income (profits) tax, and value added tax. Russian tax law is not fully developed and is subject to frequent changes. Although the quality of tax legislation has generally improved, the possibility exists that Russia may impose arbitrary or onerous taxes and penalties in the future, which could adversely affect Rosneft's business.

Rosneft constantly monitors changes introduced to tax legislation, and assesses and forecasts the degree of potential influence of such changes on its business.

The Company charges and pays taxes and duties in strict compliance with effective legislation. Recent changes in VAT and profit tax legislation are assessed by the Company as positive, however, there can be no assurance that the current tax rates will not be increased or that new taxes will not be introduced. The introduction of new taxes or change in tax provisions may affect Rosneft's overall tax efficiency and may result in significant additional taxes becoming payable.

Financial Risks

Inflation Risk

Certain of Rosneft's costs, such as the prices it pays for pipes, valves and other equipment, as well as salaries, are affected by inflation in Russia. Most of Rosneft's revenues are either denominated in US dollars or are correlated with the US dollar and depend largely on the international prices of crude oil and gas. Accordingly, the inflation of Rosneft's ruble costs in Russia, if not balanced by a corresponding deflation of the ruble against the US dollar or an increase in crude oil prices, could adversely affect Rosneft's operating results and financial condition.

Liquidity Risk

Liquidity risk may arise where the maturities of assets and liabilities do not match. The Company is constantly expanding its business, using its own and borrowed funds. Rosneft believes that based on its current financial position and the market situation, it will be able to meet its liquidity needs.

Foreign Exchange Rate Risk

A major proportion of the Company's gross revenue is attributable to export operations. All of Rosneft's export revenues, including the exports of crude oil and petroleum products, are denominated in US dollars or are correlated with US dollar-denominated prices for crude oil and petroleum products. A significant portion of Rosneft's operating costs, other than debt service costs, is denominated in rubles. Any appreciation of the ruble against the US dollar generally adversely affects Rosneft's operating results and financial condition. Conversely, a modest depreciation of the ruble against the US dollar generally positively affects Rosneft's operating results and financial condition.

Where the Company's expenses are denominated in a foreign currency, this allows for a natural hedging of the foreign exchange risk. Rosneft borrows significantly in the international debt capital markets, as a result of which the bulk of its loans and servicing obligations are denominated in US dollars. The Company offsets the foreign currency risk with respect to those costs and liabilities that are denominated in rubles, by way of forward sales for rubles of a portion of its revenue denominated in foreign currency.

Interest Rate Risk

As a major borrower, Rosneft is exposed to risks associated with changes in interest rates. The Company's primary source of debt financing is international debt capital markets. The majority of its debt portfolio is represented by US dollar denominated loans that bear interest at rates determined with reference to LIBOR and EURIBOR. Accordingly, an increase in LIBOR/EURIBOR rates can lead to higher costs of debt servicing, which, in turn, may adversely affect the Company's solvency and liquidity.

The Company manages the interest rate risk by using transactions with derivative financial instruments, such as interest rate swaps, which enable the Company to fix an interest rate for a part of its credit portfolio. Rosneft also employs a comprehensive set of internal controls to seek to mitigate financial risks.

Indebtedness Risk

Rosneft is relatively highly leveraged and must observe certain financial and other restrictive covenants under the terms of its indebtedness. Failure to comply with such covenants, or the occurrence or continuation of any other events of default, could lead to the acceleration of Rosneft's indebtedness. This could hinder Rosneft's ability to carry out its business strategy and could limit Rosneft's ability to: borrow money; create liens; give guarantees; make acquisitions; sell or otherwise dispose of assets; and engage in mergers, acquisitions or consolidations.

Capital Expenditure Risks

Rosneft's business requires significant capital expenditures. In the event of a fall in international crude oil prices, Rosneft expects that it will have to finance more of its planned capital expenditures from outside sources, including bank borrowings and offerings of debt or equity securities in the domestic and international capital markets. If necessary, these financings may be secured by Rosneft's exports of crude oil. Nonetheless, Rosneft may be unable to raise the financing required for its future capital expenditures, on a secured basis or otherwise, on acceptable terms or at all. If Rosneft is unable to raise the necessary financing, it will have to reduce planned capital expenditures, which could adversely affect its operating results and financial condition.

Insurance Risk

Rosneft does not carry insurance against all potential risks and losses and its insurance might be inadequate to cover all of its losses or liabilities, or may not continue to be available on commercially reasonable terms. Rosneft only has limited, and potentially an insufficient level of, insurance coverage for expenses and losses that may arise in connection with property damage, work-related accidents and occupational illness, natural disasters and environmental contamination.

Rosneft has insurance for hazardous operations that is mandatory under Russian law. Rosneft's upstream and downstream companies are insured against all risks of physical loss and/or damage to the insured property. Rosneft carries director and officer liability and public securities offerings insurance policies, which cover directors' personal liability for 'wrongful acts' and provide reimbursement to the Company and/or the directors for any payments they have made in connection with such claims. The Company does not, however, have any business interruption insurance. Accordingly, losses or liabilities arising from such events could increase Rosneft's costs and could adversely affect its operating results and financial condition.

Appendix 4

Information on Observation of Rosneft Corporate Governance Code

(prepared in compliance with the Resolution No. 03-849/p dated April 30, 2003, of the Federal Agency for Securities Market “On methodical recommendations on composition and form of presentation of information regarding observation of the Corporate Governance Code in annual reports of joint-stock companies”)

№	Provision of the Corporate Governance Code	Observed or not observed	Remarks
General Shareholders Meeting			
1.	Notification of shareholders on holding of the General Shareholders Meeting at least 30 days before the date of its holding irrespective of matters included into the agenda, if legislation does not specify longer period	Observed	* Item 12.11 (Information on holding of the General Shareholders Meeting, Section 12 General Shareholders Meeting) of the Charter of Rosneft Oil Company; * Item 1, Clause 13 (Call and preparation for holding of the General Shareholders Meeting, Chapter 3 General Shareholders Meeting) of the Corporate Conduct Code of Rosneft Oil Company
2.	Shareholders have an opportunity to get familiar with the list of persons, having the right to take part in the General Shareholders Meeting, beginning from the day of information on holding of the General Shareholders Meeting and up to closing of the General Shareholders Meeting in presence form, and in case of the General Shareholders Meeting in absence form – up to the date of stopping the reception of the voting bulletins	Observed	* Item 8.10 (Voting shares, Section 8 Shares of the Company) of the Charter of Rosneft Oil Company; * Clause 23 (Familiarization with the list of persons, having the right to take part in General Shareholders Meeting, Section 6 Compiling the list of persons, having the right to take part in the General Shareholders Meeting) of the Provision for General Shareholders Meeting of Rosneft Oil Company
3.	Shareholders have an opportunity to get familiar with the information (materials) to be presented when preparing for holding of the General Shareholders Meeting by means of electronic aids, including by means of the Website	Observed	* Items 12.11, 12.12 (Information on holding of the General Shareholders Meeting, Section 12 General Shareholders Meeting) of the Charter of Rosneft Oil Company; * Item 3, Clause 6 (Placing the information on the website) Provision on information policy of Rosneft Oil Company; * Item 2, Clause 13 (Call and preparation for holding of the General Shareholders Meeting, Chapter 3 General Shareholders Meeting) of the Corporate Governance Code of Rosneft Oil Company

4.	A Shareholder has an opportunity to introduce a question into the agenda of the General Shareholders Meeting or demand to call the General Shareholders Meeting without presentation of the extract from the register of shareholders provided his right to shares is accounted in the shareholder register keeping system and in case if his right to shares is accounted in stock deposit account – sufficiency of the extract from the stock deposit account to perform the above rights	Observed	* Item 4, Clause 5 (Introducing question(s) into the agenda of the shareholder annual general meeting and nomination of candidates to the bodies of the Company for election on the shareholder annual general meeting, Section 3 Offers on introducing the questions into the agenda of the shareholder annual general meeting. Offers on nomination of candidates to the bodies of the company for election on the shareholder annual general meeting), Item 2, Clause 11 (Call of extraordinary General Shareholders Meeting, Section 4 Extraordinary General Shareholders Meeting) of the Provision for General Shareholders Meeting of Rosneft Oil Company; * Item 5, Clause 13 (Call and preparation for holding of the General Shareholders Meeting, Chapter 3 General Shareholders Meeting) of the Corporate Governance Code of Rosneft Oil Company
5.	The Charter or internal documents of the Joint Stock Company contain the requirements for obligatory presence of the General Director, members of the Management Board, members of the Board of Directors, members of the Internal Audit Committee and auditor of the Joint Stock Company in the General Shareholders Meeting	Observed	* Item 2, Clause 28 (Persons present on General Shareholders Meeting, Section 9 Procedure for participation of shareholders and their authorized representatives in General Shareholders Meeting) of the Provision on General Shareholders Meeting of Rosneft Oil Company; * Item 2, Clause 14 (Holding of the General Shareholders Meeting, Chapter 3 General Shareholders Meeting); Item 1, Clause 19 (Duties of executive bodies, Chapter 4 Executive bodies of Company), Item 3, Clause 27 (Auditor of the Company. Auditing inspection, Chapter 5 Inspection for financial/economic activity of the Company) of the Corporate Governance Code of Rosneft Oil Company; * Item 1, Clause 6 (Duties of a member of the Board of Directors, Section 2 Members of the Board of Directors) of the Provision on the Board of Directors of Rosneft Oil Company; * Item 1, Clause 8 (Duties of a member of Management Board, Section 2 Members of Management Board) of the Provision on the collegial executive body of the Company (Management Board) of Rosneft Oil Company; * Item 1, Clause 9 (Duties of President) of the Provision on the personal executive body (President) of Rosneft Oil Company; * Item 2, Clause 2 (Duties of Internal Audit Committee) of the Provision on the Internal Audit Committee of Rosneft Oil Company

6.	Obligatory presence of candidates when considering on the General Shareholders Meeting the matters on election of members of the Board of Directors, General Director, members of the Management Board, members of the Internal Audit Committee, as well as the matter on approval of the auditor of the Joint Stock Company	Observed	Executed in practice. In compliance with the Provision on the General Shareholders Meeting of Rosneft Oil Company present on the General Shareholders Meeting may be candidates introduced into the voting bulletins for election of the bodies of the Company (Item 1, Clause 28 (Persons present on the General Shareholders Meeting, Section 9 Procedure for participation of shareholders and their authorized representatives in the General Shareholders Meeting)
7.	The internal documents of the Joint Stock Company contain the procedure for registration of participants of the General Shareholders Meeting	Observed	* Section 13 (Registration of participants of the shareholder meeting held in the form of the joint presence) of the Provision on the General Shareholders Meeting of Rosneft Oil Company; * Item 1, Clause 14 (Holding of the General Shareholders Meeting) of the Corporate Governance Code of Rosneft Oil Company
	Board of Directors		
8.	Presence of the authority of the Board of Directors for annual approval of financial and economic plan of the Joint Stock Company in the Charter of the Joint Stock Company	Observed	Item 13.2 (Competence of the Board of Directors, Section 13 Board of Directors of the Company) of the Charter of Rosneft Oil Company
9.	Presence of the procedure of risk control in the Joint Stock Company approved by the Board of Directors	Not observed	The Audit Committee of the Board of Directors of Rosneft Oil Company considered in October 2007 the Conception for development of the risk control system of Rosneft Oil Company and the recommendations to the Board of Directors of the Company on its approval are adopted
10.	Presence of the right of the Board of Directors to make the decision to suspend the authorities of the General Director appointed by the General Shareholders Meeting in the Charter of the Joint Stock Company	Not observed	

11.	Presence of the right of the Board of l Director to establish the requirements for qualification and amount of bonus to the General Director, members of the Management Board, heads of the main structural divisions of the Joint Stock Company in the Charter of the Joint Stock Company	Partially observed	Specific requirements for professional qualification of the executive bodies are established by the internal documents of the Company (Item 2, Clause 16 of the Corporate Governance Code of Rosneft Oil Company), namely: * Clause 4 (Requirements for the President) of the Provision on the personal executive body (President) of Rosneft Oil Company; * Clause 4 (Requirements for members of Management Board, Section 2 Members of the Management Board) of the Provision on the collegial executive body (Management Board) of Rosneft Oil Company. Additional criteria of selection of candidates of the said persons shall be determined by the HR and Remuneration Committee of the Board of Directors of the Company (Item 3 of Clause 3 of the Provision on the HR and Remuneration Committee of the Board of Directors of Rosneft Oil Company) The Board of Directors approves the contract, including the conditions for awarding to the President of the company, members of the Management Board (Item 13.2 of the Charter of Rosneft Oil Company). The HR and Remuneration Committee of the Board of Directors of the Company shall work out the principles and criteria of determination of the amount of the awarding of the said persons (Item 5, Clause 3 of the Provision on the HR and Remuneration Committee of the Board of Directors of Rosneft Oil Company)
12.	Availability of the right of the Board of Directors to approve the terms of contracts with the General Director and members of the Management Board in the Charter of the Joint Stock Company	Observed	Item 13.2 (Competence of the Board of Directors, Section 13 Board of Directors of company) of the Charter of Rosneft Oil Company
13.	Presence in the Charter or internal documents of the Joint Stock Company of the requirement for the fact that during approval of the terms of the contracts with the General Director (managing organization, manager) and members of the Management Board the votes of members of the Board of Directors who are the General Director and members of the Management Board, are not taken into account when counting the votes	Not observed	

14.	Presence of at least 3 independent directors in the Joint Stock Company, who meet the requirements of the Corporate Governance Code	Observed	* Item 1, Clause 7 (Independent members of the Board of Directors, Chapter 2 Board of Directors) of the Corporate Governance Code of Rosneft Oil Company; * Item 1, Clause 33 (Ratio of number of executive and independent members in the Board of Directors, Section 10 Conflict of interests on members of the Board of Directors with interests of the Company) of the Provision on the Board of Directors of Rosneft Oil Company
15.	Absence in the Board of Directors of the Joint Stock Company of the persons, who are faulty in crimes in the field of economic activities or crimes against the state authority, interests of the state service and service in the local self-government bodies or to whom the administrative actions were applied for the law violation in the field of the business activity or in the field of finances, taxes, dues or securities market	Observed	Executed in practice
16.	Absence in the Board of Directors of the Joint Stock Company of the persons, who are a participant, General Director (manager), member of the managerial body or employee of the legal entity competing with the Joint Stock Company	Observed	Executed in practice
17.	Presence of the requirement in the Charter of the Joint Stock Company for election of the Board of Directors by cumulative voting	Observed	Item 13.7 (Election of the Board of Directors, Section 13 Board of Directors of Company) of the Charter of Rosneft Oil Company
18.	Presence in the internal documents of the Joint Stock Company of the obligation of members of the Board of Directors to abstain from actions, which will result or may potentially result in occurrence of the conflict between their interests and interests of the Joint Stock Company and in case of such conflict – the obligation to disclose the information on this conflict to the Board of Directors	Observed	* Item 3, Clause 6 (Board of Directors in the Corporate Governance System (management) of the Company, Chapter 2 Board of Directors) of the Corporate Governance Code of Rosneft Oil Company; * Item 1, Clause 6 (Duties of a member of the Board of Directors, Section 2 Members of the Board of Directors), Section 10 (Conflict of interests of members of the Board of Directors with interests of the Company) of the Provision on the Board of Directors of Rosneft Oil Company

19.	Presence in the internal documents of the Joint Stock Company of the obligation of members of the Board of Directors to inform in written the Board of Directors on intention to make transactions with securities of the Joint Stock Company, the members of the Board of Directors or of subsidiary (dependent) companies of which they are, as well as to disclose the information on making such transactions with the securities by them	Observed	* Item 4, Clause 6 (Board of Directors in the Corporate Governance system (management) of the Company, Chapter 2 Board of Directors) of the Corporate Governance Code of Rosneft Oil Company; * Item 1, Clause 6 (Duties of a member of the Board of Directors, Section 2 Members of the Board of Directors) of the Provision on the Board of Directors of Rosneft Oil Company
20.	Presence in the internal documents of the Joint Stock Company of the requirement for holding of the meetings of the Board of Directors at least once every six weeks	Not observed	The meetings of the Board of Directors are held as required but at least once a quarter (Item 1, Clause 22 of the Provision on the Board of Directors of Rosneft Oil Company)
21.	Holding of meetings of the Board of Directors of the Joint Stock Company within the year, during which the annual report of the Joint Stock Company is made with intervals of at least once every six weeks	Observed	Meetings of the Board of Directors of Rosneft Oil Company were held in each quarter of the reporting period (9 meetings were held in total)
22.	Presence of the procedure for holding of meetings of the Board of Directors in the internal documents	Observed	* Items 13.15 – 13.21 (Meeting of the Board of Directors, Section 13 Board of Directors of the Company) of the Charter of Rosneft Oil Company; * Section 6 (Meeting of the Board of Directors) of the Provision on the Board of Directors of Rosneft Oil Company
23.	Presence in the internal documents of the Joint Stock Company of the provision on necessity in approval of transactions of the Joint Stock Company by the Board of Directors for amount of 10 and more per cent of the cost of the assets of the Company except for transactions made in the process of the usual economic activities	Observed	Item 13.2 (Competence of the Board of Directors, Section 13 Board of Directors of the Company) of the Charter of Rosneft Oil Company

24.	Presence in the internal documents of the Joint Stock Company of the right of members of the Board of Directors to get the information required for performance of his functions from executive bodies and heads of structural subdivisions of the Joint Stock Company, as well as the responsibility for failure to present such information	Observed	Clause 8 (Duties of officials of the Company for performance of requirements of members of the Board of Directors, Section 2 Members of the Board of Directors) of the Provision on the Board of Directors of Rosneft Oil Company
25.	Presence of the Strategic Planning Committee of the Board of Directors or imposition of the functions of the said committee upon another committee (except for Audit Committee and HR and Remuneration Committee)	Observed	During the reporting period the Strategic Planning Committee of Rosneft Oil Company continued its activity, was formed by the decision of the Board of Directors of the Company in June 2006 and in June 2007, on the basis of the Provision on procedure for forming and operation of Committees of the Board of Directors of the Company and Provision on the Strategic Planning Committee of the Board of Directors of the Company
26.	Presence of the committee of the Board of Directors (Audit Committee), which recommends to the Board of Directors the auditor of the Joint Stock Company and interacts with it and the Internal Audit Committee of the Joint Stock Company	Observed	During the reporting period the Audit Committee of Rosneft Oil continued its activity, was formed by the decision of the Board of Directors of the Company in June 2006 and in June 2007, on the basis of the Provision on procedure for forming and operation of Committees of the Board of Directors of the Company and Provision on the Audit Committee of the Board of Directors of the Company

27.	Presence of only independent and non-executive directors in the composition of the Audit Committee	Not observed	The Audit Committee of the Board of Directors of Rosneft Oil Company includes: 1. Hans-Joerg Rudloff – Chairman of the Committee (an independent non-executive director). 2. Androsov Kirill Gennadevich (a non-executive director). 3. Kostin Andrey Leonidovich (an independent non-executive director). Internal documents of the Company specify that the Audit Committee shall consist only of the members of the Board of Directors, who are not executive directors of the Company and be headed by the independent director, namely: * Item 4, Clause 9 (Audit Committee of the Board of Directors, Chapter 2 Board of Directors) of the Corporate Governance Code of Rosneft Oil Company; * Item 3, Clause 35 (Forming of committees of the Board of Directors, Chapter 11 Committees of the Board of Directors) of the Provision on the Board of Directors of Rosneft Oil Company; * Item 4, Clause 2 (Forming of committees of the Board of Directors) of the Provision on forming and operation of Committees of the Board of Directors of Rosneft Oil Company; * Item 2, Clause 2 (General provisions on committees) of the Provision on the Audit Committee of the Board of Directors of Rosneft Oil Company
28.	Management of the Audit Committee by the non-executive director	Observed	Hans-Joerg Rudloff is the Chairman of the Audit Committee of the Board of Directors of Rosneft Oil Company (an independent director). This provision is contained in the following internal documents of the Company: * Item 4, Clause 9 (Audit Committee of the Board of Directors, Chapter 2 Board of Directors) of the Corporate Governance Code of Rosneft Oil Company; * Item 4, Clause 35 (Forming of committees of the Board of Directors, Chapter 11 Committees of the Board of Directors) of the Provision on the Board of Directors of Rosneft Oil Company; * Item 4, Clause 2 (Forming of committees of the Board of Directors) of the Provision on procedure of forming and operation of Committees of the Board of Directors of Rosneft Oil Company; * Item 2, Clause 2 (General provisions on committees) of the Provision on the Audit Committee of the Board of Directors of Rosneft Oil Company

29.	Presence in the internal documents of the Joint Stock Company of the right of access of all members of the Audit Committee to any documents and information of the Joint Stock Company in case of non-disclosure of the confidential information	Observed	* Item 2, Clause 8 (Provision of activities of committees of the Board of Directors) of the Provision for procedure of formation and operation of Committees of the Board of Directors of Rosneft Oil Company; * Clause 6 (Interaction of Committee with executive bodies of Company) of the Provision on the Audit Committee of the Board of Directors of Rosneft Oil Company
30.	Organization of Committee of the Board of Directors (HR and Remuneration Committee), the function of which is to determine criteria for selection of candidates to members of the Board of Directors and to work out the policy of the Joint Stock Company in the award field	Observed	During the reporting period the HR and Remuneration Committee of Rosneft Oil Company continued its activity, was formed by decisions of the Board of Directors of the Company in June 2006 and in June 2007, on the basis of the Provision on procedure for formation and operation of Committees of the Board of Directors of the Company and Provision on the HR and Remuneration Committee of the Board of Directors of the Company
31.	Management of the HR and Remuneration Committee by an independent director	Observed	Andrey Lenidovich Kostin is the Chairman of the HR and Remuneration Committee of the Board of Directors of Rosneft Oil Company (an independent director). This provision is specified in the following internal documents of the Company: * Item 4, Clause 10 (HR and Remuneration Committee of the Board of Directors, Chapter 2 Board of Directors) of the Corporate Governance Code of Rosneft Oil Company; * Item 4, Clause 35 (Forming of committees of the Board of Directors, Chapter 11 Committees of the Board of Directors) of the Provision on the Board of Directors of Rosneft Oil Company; * Item 4, Class 2 (Forming of committees of the Board of Directors) of the Provision on procedure of formation and operation of Committees of the Board of Directors of Rosneft Oil Company; * Item 2, Clause 2 (General provisions on committee) of the Provision on the HR and Remuneration Committee of the Board of Directors of Rosneft Oil Company

32.	Absence of officials of the Joint Stock Company in the composition of HR and Remuneration Committee	Observed	The HR and Remuneration Committee of the Board of Directors of Rosneft Oil Company includes: 1. Kostin Andrey Leonidovich – President – Chairman of the Committee (a non-executive director). 2.Naryshkin Sergey Evgenievich (a non-executive director). 3. Hans-Joerg Rudloff (a non-executive director). This provision is specified in the following internal documents of the Company: * Item 4, Clause 10 (HR and Remuneration Committee of the Board of Directors, Chapter 2 Board of Directors) of the Corporate Governance Code of Rosneft Oil Company; * Item 4, Clause 35 (Forming of committees of the Board of Directors, Chapter 11 Committees of the Board of Directors) of the Provision on the Board of Directors of Rosneft Oil Company; * Item 4, Clause 2 (Forming of committees of the Board of Directors) of the Provision on procedure for formation and operation of committees of the Board of Directors of Rosneft Oil Company; * Item 2, Clause 2 (General provisions on committees) of the Provision on the HR and Remuneration Committee of the Board of Directors of Rosneft Oil Company
33.	Organization of the committee of the Board of Directors for risks or imposition of functions of the said committee to another committee (except for Audit Committee and HR and Remuneration Committee)	Not observed	This function is imposed upon the Audit Committee of the Board of Directors of Rosneft Oil Company: * Item 1, Clause 2 (General provisions on the committee), Item 2, Clause 3 (Functions of the committee), Item 3, Clause 7 (Interaction of the committee with structural subdivision, performing the functions of the internal inspection of the Company) of the Provision on the Audit Committee of the Board of Directors of Rosneft Oil Company
34.	Organization of the committee of the Board of Directors for control of corporate conflicts or imposition of functions of the said committee on another committee (except for Audit Committee and HR and Remuneration Committee)	Not observed	Rosneft Oil Company has no Committee of the Board of Directors for corporate conflicts. Provision is made for organization of such committee for prevention and effective pre-trial settlement of corporate conflicts with participation of the Company and its shareholders (Item 6, Clause 12 of the Corporate Governance Code of Rosneft Oil Company)
35.	Absence of the officials of the Joint Stock Company in composition of the Committee for control of corporate conflicts	Not observed	Rosneft Oil Company contains no Committee of the Board of Directors for control of corporate conflicts
36.	Management of the Committee for control of corporate conflicts by an individual director	Not observed	Rosneft Oil Company contains no Committee of the Board of Directors for control of corporate conflicts

37.	Availability of internal documents of the Joint Stock Company, specifying the procedure for formation and operation of committees of the Board of Directors, which are approved by the Board of Directors	Observed	The following documents are approved by the decisions of the Board of Directors of Rosneft Oil Company in May, 2006: 1. Provision on procedure for formation and operation of Committees of the Board of Directors of Rosneft Oil Company. 2. Provision on the Audit Committee of the Board of Directors of Rosneft Oil Company. 3. Provision on the HR and Remuneration Committee of the Board of Directors of Rosneft Oil Company. 4. Provision on the Strategic Planning Committee of the Board of Directors of Rosneft Oil Company
38.	Presence in the Charter of the Joint Stock Company of the procedure for determination of the quorum of the Board of Directors, making it possible to ensure the obligatory participation of independent directors in the meetings of the Board of Directors	Not observed	The quorum for holding of the meeting of the Board of Directors is considered achieved subject to: presence and (or) availability of the written opinion of more than one half of the number of elected members of the Board of Directors (Item 13.18 of the Charter of Rosneft Oil Company)
Executive bodies			
39.	Presence of the collegial executive body (Management Board) of the Joint Stock Company	Observed	Section 14 (Executive bodies of the Company) of the Charter of Rosneft Oil Company
40.	Presence in the Charter or internal documents of the Joint Stock Company of the provision on that the Board shall approve the transactions with real estate, getting the credits by the Joint Stock Company if the said transactions are not related to large transactions and their performance is not related to the common economic activity of the Joint Stock Company	Observed	Item 14.9 (Section 14 Executive bodies of the Company) of the Charter of Rosneft Oil Company: approval of transactions connected with purchase, disposal or possible disposal directly or indirectly of the property by the Company, the cost of which is above 5 and up to 10 per cent of the book value of assets of the Company determined according to the date of its accounting reporting on the last reporting date, except for transactions made in the process of the usual economic activity of the Company, transactions connected with placing by subscription (realization) of common shares of the Company and transactions connected with placing of emission securities converted to the common shares of the Company
41.	Presence in the internal documents of the Joint Stock Company of the procedure for coordination of operations, which are out of the framework of financial and economic plan of the Joint Stock Company	Observed	Item 13.2 (Competence of the Board of Directors, Section 13 Board of Directors of Company) of the Charter of Rosneft Oil Company: approval of transactions connected with purchase, disposal or possible disposal directly or indirectly of the property by the Company, the cost of which is above 10 and up to 25 per cent of the book value of the assets of the Company determined according to its accounting reporting on the last reporting date, except for transactions made in the process of the usual economic activity of the Company

42.	Executive bodies contain no persons being a participant, General Director (manager), member of managerial body or a worker of a legal entity, competing with the Joint Stock Company	Observed	* Item 1, Clause 6 (Conflict of interests of members of the Board with interests of the Company) of the Provision on the collegial executive body (Management Board) of Rosneft Oil Company; * Item 1, Clause 7 (Conflict of interests of the President with interests of the Company) of the Provision on the personal executive body (President) of Rosneft Oil Company
43.	Absence in the Board of Directors of the Joint Stock Company of the persons, who are faulty in crimes in the field of economic activities or crimes against the state authority, interests of the state service and service in the local self-government bodies or to whom the administrative actions were applied for the law violation in the field of the business activity or in the field of finances, taxes, dues, securities market. If the functions of the sole executive body are performed by the managing organization or manager – conformity of the General Director and members of the Board of the managing organization or of the manager to the requirements imposed upon the General Director and members of the Management Board of the Joint Stock Company	Observed	* Clause 4 (Requirements for members of the Management Board) of the Provision on collegial executive body (Management Board) of Rosneft Oil Company; * Clause 4 (Requirements for President) of the Provision for the personal executive body (President) of Rosneft Oil Company
44.	The Charter or internal documents of the Joint Stock Company have the prohibition to the managing organization (manager) to perform similar functions in competing company, as well as to be in any property relations with the Joint Stock Company except for rendering of services to the managing organization (manager)	Not observed	The Charter of the Company does not specify the provision for the managing organization (manager)

45.	Presence in the internal documents of the Joint Stock Company of the duty of executive bodies to abstain from actions, which will result or may potentially result in occurrence of the conflict between their interests and interests of the Joint Stock Company and in case of such conflict – the obligation to disclose the information on this conflict to the Board of Directors	Observed	* Item 1, Clause 19 (Duties of executive bodies, Chapter 4 Executive bodies of the Company) of the Corporate Governance Code of Rosneft Oil Company; * Item 1, Clause 8 (Duties of members of the Board, Section 2 Members of the Board) of the Provision on the collegial executive body (Management Board) of Rosneft Oil Company; * Item 1, Clause 9 (Duties of the President) of the Provision on the personal executive body (President) of Rosneft Oil Company
46.	Presence in the Charter or internal documents of the Joint Stock Company of criteria for selection of managing organization (manager)	Not observed	The Charter of the Company does not provide provisions on managing organization (manager)
47.	Presentation of monthly reports of its work to the Board of Directors by the executive bodies of the Joint Stock Company	Not observed	Provision is made for annual presentation of reports on its activity to the Board of Directors by executive bodies and at the request of the Board of Directors – other reports (Item3, Clause 19 of the Corporate Governance Code of Rosneft Oil Company), Clause 25 of the Provision on the collegial executive body (Management Board) of Rosneft Oil Company
48.	Responsibility for violation of provisions on use of the confidential and service information, which is established in contracts concluded by the Joint Stock Company with the General Director (managing organization, manager) and members of the Management Board	Observed	Clause 7 (Duties for keeping the service (professional) secret with respect to the inside information) of the Provision on Inside Information of Rosneft Oil Company
	Secretary of company		
49.	Presence in the Joint Stock Company of a special official person (Secretary of the Company), the task of which is to ensure the observation of the procedure requirements, guaranteeing the realization of rights and legal interests of the Joint Stock Company by the bodies and officials of the Joint Stock Company	Not observed	In compliance with the Provision on the Corporate Secretary of Rosneft Oil Company (approved by the decision of the Board of Directors of Rosneft Oil Company in May, 2006) the Company provides for a special official person – Corporate Secretary (for the purpose of observing the procedures to ensure the rights and legal interests of shareholders). The Board of Directors of Rosneft Oil Company plans to consider the matter on approval of the Corporative Secretary of Rosneft Oil Company

50.	Presence in the Charter or internal documents of the Joint Stock Company of the procedure for appointment (election) of the Secretary of the Company and duties of the Secretary of the Company	Observed	* Item 13.2 (Competence of the Board of Directors, Section 13 Board of Directors of the Company) of the Charter of Rosneft Oil Company; * Chapter 4 (Corporate Secretary of the Company) of the Corporate Governance Code of Rosneft Oil Company; * Clauses 3, 6-11 of the Provision on the Corporate Secretary of Rosneft Oil Company
51.	Presence in the Charter of the Joint Stock Company of the requirements for the candidate to the Secretary of the Company	Not observed	Requirements for the candidate to the Secretary of the Company are specified in the Clause 5 (Requirements for Corporate Secretary) of the Provision for Corporate Secretary of Rosneft Oil Company
	Essential corporate actions		
52.	Presence in the Charter or internal documents of the Joint Stock Company of the requirement for approval of large transactions before its performance	Not observed	
53.	Obligatory attraction of independent evaluator for evaluation of the market cost of the property, which is a subject of a large transaction	Observed	Executed in practice
54.	Presence in the Charter of the Joint Stock Company of the prohibition to take, when acquiring the large package of shares of the Joint Stock Company (take-over), any actions directed at protection of interests of executive bodies (members of these bodies) and members of the Board of Directors of the Joint Stock Company, as well as worsening the position of the shareholders as compared to the existing one (particularly, prohibition to take by the Board of Directors before completion of the supposed term of acquisition of shares the decision to issue the additional shares, to issue the securities converted to the shares or securities, giving the right to acquire the shares of the company even if the right of taking such decision is granted to it by the Charter).	Not observed	

55.	Presence in the Charter of the Joint Stock Company of the requirements for obligatory attraction of the independent evaluator for evaluation of the current market cost of shares and possible changes of their market cost as a result of take-over	Not observed	
56.	Absence in the Charter of the Joint Stock Company of the excuse of the acquirer from the obligation to offer to shareholders to sell the belonging common shares of the company (emission securities converted to common shares) during take-over	Not observed	
57.	Presence in the Charter or internal documents of the Joint Stock Company of the requirements for obligatory attraction of the independent estimator for determination of the ratio of conversion of shares during reorganization	Not observed	
	Disclosure of information		
58.	Presence of the internal document approved by the Board of Directors, which determines the rules and approaches of the Joint Stock Company to disclosure of the information (Provision on information policy)	Observed	Provision on information policy of Rosneft Oil Company (approved by the decision of the Board of Directors of Rosneft Oil Company in May, 2006)
59.	Presence in the internal documents of the Joint Stock Company of the requirements for disclosure of the information on the purpose of placing the shares, on the persons who are going to acquire the shares to be placed including large packages of shares, as well as on whether the top officers of the Joint Stock Company will take part in acquisition of the shares of the company to be placed	Not observed	The information is disclosed in compliance with the requirements of the Russian Law and Provision on information policy of Rosneft Oil Company
60.	Presence in the internal documents of the Joint Stock Company of the list of information, documents and materials, whish shall be submitted to shareholders to solve matters raised on the General Shareholders Meeting	Observed	Item 12.12 (Information on holding of the General Shareholders Meeting, Chapter 12 General Shareholders Meeting) of the Charter of Rosneft Oil Company

61.	Presence of the Joint Stock Company website and regular disclosure of information on the Joint Stock Company on this website	Observed	http://www.rosneft.ru/ Information on the Company is disclosed also by placing it on the website (Clause 4 of the Provision on information policy of Rosneft Oil Company)
62.	Presence in the internal documents of the Joint Stock Company of the requirement for disclosure of information on transactions of the Joint Stock Company with persons related according to the Charter to the higher officials of the Joint Stock Company, as well as on transactions of the Joint Stock Company with organizations, in which 20 and more per cent of the authorized capital of the Joint Stock Company belong directly or indirectly to the higher officials, on which such persons may exert great effect	Observed	The information is disclosed in compliance with requirements of the Russian Law and Provision on information policy of Rosneft Oil Company
63.	Presence in the internal documents of the Joint Stock Company of the requirement on disclosure of the information on all transactions, which may exert effect on the market cost of the shares of the Joint Stock Company	Observed	The information is disclosed in compliance with requirements of the Russian Law and Provision on information policy of Rosneft Oil Company
64.	Presence of the internal document approved by the Board of Directors on use of essential information on activities of the Joint Stock Company, shares and other securities of the Company and transactions and transactions with them, which is not accessible to public and disclosure of which may exert essential effect on the market cost of shares and other securities of the Joint Stock Company	Observed	Provision on Inside Information of Rosneft Oil Company (approved by the decision of the Board of Directors of Rosneft Oil Company in May, 2006)
	Inspection of financial and economic activity		
65.	Presence of procedures of Internal Inspection of financial and economic activities of the Joint Stock Company, which are approved by the Board of Directors	Observed	Provision of Internal Control of Financial and Economic Activities of Rosneft Oil Company (approved by the decision of the Board of Directors of Rosneft Oil Company in May, 2006)

66.	Presence of the special subdivision of the Joint Stock Company, ensuring the observation of procedures for Internal Inspection (supervision and auditing service)	Observed	Rosneft Oil Company has Control and Auditing Department, which is specified in the following internal documents of the Company: * Item 2, Clause 24 (Control system for Financial and Economic Activities of the Company) of the Corporate Governance Code of Rosneft Oil Company; * Item 1, Clause 4 (Organization of internal control) of the Provision of Internal Control of Financial and Economic Activities of Rosneft Oil Company
67.	Presence in the internal documents of the Joint Stock Company of the requirement for determination of the structure and composition of the supervision and auditing service of the Joint Stock Company by the Board of Directors	Observed	The organizational structure and composition of Control and Auditing Department of Rosneft Oil Company are determined in Provision of Internal Control of Financial and Economic Activities of Rosneft Oil Company taken by the decision of the Board of Directors of the Company (Clause 7 Organizational structure of Control and Auditing Department)
68.	Absence in the supervision and auditing service of the persons, who are faulty in crimes in the field of economic activities or crimes against the state authority, interests of the state service and service in the local self-government bodies or to whom the administrative actions were applied for the law violation in the field of the business activity or in the field of finances, taxes, dues, securities market	Observed	Requirements of Clause 7 (Organizational structure of Control and Auditing Department) of the Provision of Internal Control of Financial and Economic Activities of Rosneft Oil Company is executed in practice
69.	Absence in the supervision and auditing service of the persons, who are members of executive bodies, as well as who are a participant, General Director (manager), member of the managerial body or employee of the legal entity competing with the Joint Stock Company	Observed	Requirements of Clause 7 (Organizational structure of Control and Auditing Department) of the Provision of Internal Control of Financial and Economic Activities of Rosneft Oil Company is executed in practice
70.	Presence in the internal documents of the Joint Stock Company of the time of presentation to the supervision and auditing service of the documents and materials for estimation of financial/economic operations made, as well as the responsibility of officials and workers of the Joint Stock Company for their failure to present the said documents in due time	Not observed	

71.	Presence in the internal documents of the Joint Stock Company of the duties of the supervision and auditing service to report the revealed violations to the Audit Committee, and in case of its absence to the Board of Directors of the Joint Stock Company	Observed	Item 2, Clause 12 (Taking measures to eliminate violations and faults detected by the inspection (revision) of the Provision of Internal Control of Financial and Economic Activities of Rosneft Oil Company
72.	Presence in the Charter of the Joint Stock Company of the requirement for preliminary estimation by the supervision and auditing service of the expediency of making operations not specified by the financial and economic plan of the Joint Stock Company (non-standard operations)	Not observed	
73.	Presence in the internal documents of the Joint Stock Company of the procedure for coordination of non-standard operations with the Board of Directors	Not observed	
74.	Presence of the internal document approved by the Board of Directors, which determines the procedure to perform inspections of financial and economic activities of the Joint Stock Company by the Internal Audit Committee	Observed	Provision on the Internal Audit Committee of Rosneft Oil Company (approved by the General Shareholders Meeting of Rosneft Oil Company in June, 2006)
75.	Evaluation of the audit conclusion by the Audit Committee before its submission to shareholders on the General Shareholders Meeting	Observed	*Item 1, Clause 9 (Audit Committee of the Board of Directors, Chapter 2 Board of Directors) of the Corporate Governance Code of Rosneft Oil Company; * Item 1, Clause 3 (Functions of committee) of the Provision on the Audit Committee of the Board of Directors of Rosneft Oil Company
	Dividends		
76.	Presence of the internal document approved by the Board of Directors, to which the Board of Directors adheres when taking recommendations on the size of dividends (Provision on dividend policy)	Observed	Provision on Dividend Policy of Rosneft Oil Company (approved by the decision of the Board of Directors of Rosneft Oil Company in May, 2006)

77.	Presence in the Provision on dividend policy of the procedure for determination of the minimum share of the net income of the Joint Stock Company aimed at payment of dividends and conditions, at which the dividends on preference shares are not paid or paid partially, the size of dividends on which is determined in the Charter of the Joint Stock Company	Observed	* Item 2, Clause 4 (Principles of dividend policy of the Company) of the Provision on Dividend Policy of Rosneft Oil Company; *Charter of the Company does not specify placing of preference shares
78.	Publication of the information on dividend policy of the Joint Stock Company and changes introduced into it in periodical publication specified by the Charter of the Joint Stock Company for publication of messages on holding of the General Shareholders Meetings, as well as placing the said information on the website of the Joint Stock Company.	Observed	Information on Dividend Policy of Rosneft Oil Company and changes introduced into it are placed on the website of the Company

Appendix 5


250 .780 .850 260
206 .330 .375 65
175 .630 .760 150
100 .210 .380 119
100 .320 .600 535
10 .535 .540 470
220 .050 .200 10

Major Related–Party Transactions in 2007

1. OJSC Rosneft Oil Company raised facility based on loan contract and agreements related thereto for payment of fees and commissions and/or other contracts (agreements) (hereinafter collectively – Credit Documents), concluded between the Company as borrower, and ABN AMRO Bank N.V., Barclays Bank PLC, BNP Paribas, Calyon, Citigroup Global Markets Limited, Goldman Sachs International, J.P. Morgan plc and Morgan Stanley Bank International Limited and/or their affiliates and other financing institutions, specified in the Credit Documents as authorized lead arrangers, and ABN AMRO Bank N.V. (London Branch), Barclays Bank PLC, BNP Paribas, Calyon, Citibank, N.A. (London Branch), Goldman Sachs International Bank, JPMorgan Chase Bank, N.A. and Morgan Stanley Senior Funding, Inc. and/or their affiliates and other financing institutions, specified in the Credit Documents as creditors, and Barclays Bank PLC and/or its affiliates and/or other financing institutions, specified in the Credit Documents as the agent(s) under the Loan, as well as other entities specified in the Credit Documents, under the following material terms and conditions:

1) Total value of Facility: not exceeding 13 000 000 000 (thirteen billion) US dollars;

2) Final maturity term (repayment) of the Loan: not later than in 1 year from the effective date of the Loan Contract;

3) Interest rate under the Loan: not exceeding LIBOR+0.5% per annum.

The transaction was approved by the Board of Directors of OJSC Rosneft Oil Company on 15 March 2007 (Minutes №2).

2. OJSC Rosneft Oil Company granted suretyship under the loan contract and agreements related thereto for payment of fees and commissions and/or other contracts (agreements) (hereinafter collectively – Credit Documents), concluded between OJSC Rosneft Oil Company (hereinafter – the Company) as surety, LLC RN-Razvitie (hereinafter Borrower) as borrower, and ABN AMRO Bank N.V., Barclays Bank PLC, BNP Paribas, Calyon, Citigroup Global Markets Limited, Goldman Sachs International, J.P. Morgan plc and Morgan Stanley Bank International Limited and/or their affiliates and other financing institutions, specified in the Credit Documents as authorized lead arrangers, and ABN AMRO Bank N.V. (London Branch), Barclays Bank PLC, BNP Paribas, Calyon, Citibank, N.A. (London Branch), Goldman Sachs International Bank, JPMorgan Chase Bank, N.A. and Morgan Stanley Senior Funding, Inc. and/or their affiliates and other financing institutions, specified in the Credit Documents as creditors, and Barclays Bank PLC and/or its affiliates and/or other financing institutions, specified in the Credit Documents as the agent(s) under the Loan, made available to the Borrower under the Loan, based on the Credit Documents, as well as other entities specified in the Credit Documents, in accordance with which the Company undertakes to the creditors of the Borrower under the Credit Documents to ensure the Borrower's fulfilling all its obligations under the Credit Documents, under the following material terms and conditions:

1) Total value of Facility: not exceeding 9 000 000 000 (nine billion) US dollars;

2) Final maturity term (repayment) of the Loan: not later than in 18 months from the effective date of the Loan contract;

3) Interest rate under the Loan: not exceeding LIBOR+0.5% per annum.

The transaction was approved by the Board of Directors of OJSC Rosneft Oil Company on 15 March 2007 (Minutes №2).

3. OJSC Rosneft Oil Company granted an interest free loan to LLC Neft-Aktiv of up to 350 bln RUR with maturity up to 5 years for acquisition of assets and replenishment of floating capital.

The transaction was approved by the Board of Directors of OJSC Rosneft Oil Company on 11.05.2007 (Minutes № 3)

Related Party Transactions			
Name of the Contracting Party (Counterparty)	Subject Matter and Material Terms	Transaction Value	Interested Party
Transactions approved by the Board of Directors of OJSC Rosneft Oil Company (hereinafter – the Company) on 22.05.2007:			
OJSC Rosneft Oil Company-Dagneft	1. The Counterparty assigned the access rights to the system of oil-trunk pipelines of OJSC AK Transneft on a grant basis for oil export supplies in Q1 2007 in the volume of 25 thousand tons	1. No fee to be paid by the Company	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Company extended the maturity of promissory notes issued by the Company for redemption of fixed assets of the Counterparty, in the amount of 208 799.52 thousand RUR (0.03% of book value of the Company assets as of 31.03.2007)	2. The Value of the Company notes with maturity extended by the Company – 208 799.52 thousand RUR	
	3. The Company extended the maturity dates for the indebtedness of the Counterparty under the loans granted by the Company for financing of operations of the Counterparty, in amount of 69 000 thousand RUR (0.009% of book value of the Company assets as of 31.03.2007)	3. The value of interest free loans of the Company with extended maturity – 69 000 thousand RUR	
	4. The Company leased fixed assets to the Counterparty against the royalty in amount of 13 926.72 thousand RUR (0.002% of book value of the Company assets as of 31.03.2007)	4. Rentals or royalty received by the Company - 13 926.72 thousand RUR	
LLC RN-Krasnodarneftegaz	1. The Counterparty rendered services to the Company in production of oil and gas condensate in the volume of 1 727.3 thousand tons and gas in the volume of 2 891.17 mscm at oil and gas deposits, the licenses for development of which belong to the Company, and transfer of the Company hydrocarbons so produced for further sales with total value of 5 679 066 thousand RUR (0.71 % of book value of the Company assets as of 31.03.2007)	1. Value of services paid by the Company – 5 679 066 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Company sold gas to the Counterparty in the volume of 616 mscm with total value of 903 461 thousand RUR (0.11% of book value of the Company assets as of 31.03.2007)	2. The Value of gas sold by the Company – 903 461 thousand RUR	

	3. The Counterparty rendered services to the Company in selling the Company gas in the volume of 207 mscm with total value of 290 416 thousand RUR (0.04% of book value of the Company assets as of 31.03.2007)	3. Value of services paid by the Company – 290 416 thousand RUR	
	4. The Counterparty rendered services to the Company in transporting oil in the volume of 46 thousand tons with total value of 17 000 thousand RUR (0.002% of book value of the Company assets as of 31.03.2007)	4. Value of services paid by the Company – 17 000 thousand RUR	
	5. The Company sold petroleum products to the Counterparty in the volume of 28 thousand tons with total value of 459 186 thousand RUR (0.06% of book value of the Company assets as of 31.03.2007)	5. Value of petroleum products sold by the Company – 459 186 thousand RUR	
	6. The Company obtained interest free loans from the Counterparty for reallocation of funds for implementation of investment programs and repayment of financial liabilities in amount of 875 600 thousand RUR (0.11% of book value of the Company assets as of 31.03.2007)	6. Value of interest free loans obtained by the Company – 875 600 thousand RUR	
	7. The Counterparty extended the maturity dates for the indebtedness of the Company under the loans granted by the Counterparty for reallocation of funds for implementation of investment programs and repayment of financial liabilities, in amount of 1 122 178.72 thousand RUR (0.14% of book value of the Company assets as of 31.03.2007)	7. Value of interest free loans obtained by the Company with extended maturity terms – 1 122 178.72 thousand RUR	
	8. The Counterparty (as the agent) utilized capital investments of the Company (as the Principal) targeted for construction of production facilities in the amount of 2 962 588 thousand RUR against the agent's fee in amount of 38 513.64 thousand RUR (0.005% of book value of the Company assets as of 31.03.2007)	8. Agent's Fee paid by the Company – 38 513.64 thousand RUR	
	9. The Company leased fixed assets to the Counterparty against the royalty in amount of 910 854.92 thousand RUR (0.11% of book value of the Company assets as of 31.03.2007)	9. Rentals or royalty received by the Company – 910 854.92 thousand RUR	
	10. The Company sold material and technical resources to the Counterparty with total value of 967 800 thousand RUR (0.12% of book value of the Company assets as of 31.03.2007)	10. Value of material and technical resources sold by the Company – 967 800 thousand RUR	

	11. The Counterparty rendered R&D services to the Company for total value of 1 000 thousand RUR (0.0001% of book value of the Company assets as of 31.03.2007)	11. Value of services paid by the Company – 1 000 thousand RUR	
	12. The Company rendered IT services to the Counterparty with total value of 7 724 thousand RUR (0.001% of book value of the Company assets as of 31.03.2007)	12. Value of services rendered by the Company – 7 724 thousand RUR	
	13. The Counterparty rendered services to the Company related to organization of working seminars for introduction and development of IT system Legal support of business in subsidiaries of the Company with total value of 1 350 thousand RUR (0.0002% of book value of the Company assets as of 31.03.2007)	13. Value of services paid by the Company – 1 350 thousand RUR	
LLC RN-Purneftegaz	1. The Company sold crude oil to the Counterparty in the volume of 25 thousand tons with total value of 145 696 thousand RUR (0.02% of book value of the Company assets as of 31.03.2007)	1. Value of crude oil sold by the Company – 145 696 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Company sold gas to the Counterparty in the volume of 138 mscm with total value of 105 853 thousand RUR (0.01% of book value of the Company assets as of 31.03.2007)	2. The Value of gas sold by the Company – 105 853 thousand RUR	
	3. The Counterparty rendered services to the Company in selling the Company gas in the volume of 44 mscm with total value of 33 380 thousand RUR (0.004% of book value of the Company assets as of 31.03.2007)	3. Value of services paid by the Company – 33 380 thousand RUR	
	4. The Counterparty rendered services to the Company related to transshipment of gas condensate in the volume of 1 001 thousand tons with total value of 167 719 thousand RUR (0.02% of book value of the Company assets as of 31.03.2007)	4. Value of services paid by the Company – 167 719 thousand RUR	
	5. The Counterparty rendered services to the Company related to processing of 328 thousand tons of the Company crude oil, with total value of 545 700 thousand RUR (0.07% of book value of the Company assets as of 31.03.2007)	5. Value of services paid by the Company – 545 700 thousand RUR	
	6. The Company sold petroleum products to the Counterparty in the volume of 104 thousand tons with total value of 1 440 000 thousand RUR (0.18% of book value of the Company assets as of 31.03.2007)	6. Value of petroleum products sold by the Company – 1 440 000 thousand RUR	

	7. The Company obtained interest free loans from the Counterparty for reallocation of funds for implementation of investment programs and repayment of financial liabilities in amount of 600 000 thousand RUR (0.08% of book value of the Company assets as of 31.03.2007)	7. Value of interest free loans obtained by the Company, – 600 000 thousand RUR	
	8. The Counterparty extended the maturity dates for the indebtedness of the Company under the loans granted by the Counterparty for reallocation of funds for implementation of investment programs and repayment of financial liabilities, in amount of 2 606 609.98 thousand RUR (0.33% of book value of the Company assets as of 31.03.2007)	8. Value of interest free loans obtained by the Company with extended maturity terms – 2 606 609.98 thousand RUR	
	9. The Counterparty (as the agent) utilized capital investments of the Company (as the Principal) targeted for construction of production facilities in the amount of 11 833 543 thousand RUR against the agent's fee in amount of 237 854.21 thousand RUR (0.03% of book value of the Company assets as of 31.03.2007)	9. Value of agent's fee paid by the Company – 237 854.21 thousand RUR	
	10. The Company leased fixed assets to the Counterparty against the royalty in amount of 4 790 099.9 thousand RUR (0.6% of book value of the Company assets as of 31.03.2007)	10. Rentals or royalty received by the Company – 4 790 099.9 thousand RUR	
	11. The Company sold material and technical resources to the Counterparty with total value of 3 807 800 thousand RUR (0.48% of book value of the Company assets as of 31.03.2007)	11. Value of material and technical resources sold by the Company – 3 807 800 thousand RUR	
	12. The Counterparty rendered R&D services to the Company for total value of 1 000 thousand RUR (0.0001% of book value of the Company assets as of 31.03.2007)	12. Value of services paid by the Company – 1 000 thousand RUR	
	13. The Company rendered IT services to the Counterparty with total value of 4 724 thousand RUR (0.0006% of book value of the Company assets as of 31.03.2007)	13. Value of services rendered by the Company – 4 724 thousand RUR	
CJSC Komsomolskneft	1. The Counterparty assigned the access rights to the system of oil-trunk pipelines of OJSC AK Transneft on a grant basis for oil export supplies in Q1 2007 in the volume of 10 thousand tons.	1. No fee to be paid by the Company	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)

	2. The Company obtained interest free loans from the Counterparty for reallocation of funds for implementation of investment programs and repayment of financial liabilities in amount of 5 551.76 thousand RUR (0.0007% of book value of the Company assets as of 31.03.2007)	2. Value of interest free loans obtained by the Company, – 5 551.76 thousand RUR	
LLC RN-Sakhalinmorneftegaz	1. The Counterparty rendered services to the Company in production of oil and gas condensate in the volume of 1 953.5 thousand tons and gas in the volume of 931.74 mscm at oil and gas deposits, the licenses for development of which belong to the Company, and transfer of the Company hydrocarbons so produced for further sales with total value of 5 354 827 thousand RUR (0.67% of book value of the Company assets as of 31.03.2007)	1. Value of services paid by the Company – 5 354 827 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Company sold crude oil to the Counterparty in the volume of 1 thousand tons with total value of 3 002 thousand RUR (0.0004% of book value of the Company assets as of 31.03.2007)	2. Value of crude oil sold by the Company – 3 002 thousand RUR	
	3. The Company sold gas to the Counterparty in the volume of 249 mscm with total value of 213 527 thousand RUR (0.03% of book value of the Company assets as of 31.03.2007)	3. The Value of gas sold by the Company – 213 527 thousand RUR	
	4. The Counterparty rendered services to the Company in selling the Company gas in the volume of 665 mscm with total value of 5 646 thousand RUR (0.0007% of book value of the Company assets as of 31.03.2007)	4. Value of services paid by the Company – 5 646 thousand RUR	
	5. The Counterparty rendered services to the Company related to transportation of gas in the volume of 915 mscm with total value of 101 793 thousand RUR (0.01% of book value of the Company assets as of 31.03.2007)	5. Value of services paid by the Company – 101 793 thousand RUR	
	6. The Counterparty rendered services to the Company in transporting oil in the volume of 1 940 thousand tons with total value of 624 952 thousand RUR (0.08% of book value of the Company assets as of 31.03.2007)	6. Value of services paid by the Company – 624 952 thousand RUR	
	7. The Company granted interest free loans to the Counterparty for financing of production activities in amount of 398 170.6 thousand RUR (0.05% of book value of the Company assets as of 31.03.2007)	7. Value of interest free loans granted by the Company – 398 170.6 thousand RUR	

	8. The Counterparty (as the agent) utilized capital investments of the Company (as the Principal) targeted for construction of production facilities in the amount of 1 748 326 thousand RUR against the agent's fee in amount of 34 966.52 thousand RUR (0.004% of book value of the Company assets as of 31.03.2007)	8. Value of agent's fee paid by the Company – 34 966.52 thousand RUR	
	9. The Company leased fixed assets to the Counterparty against the royalty in amount of 898 666.56 thousand RUR (0.11% of book value of the Company assets as of 31.03.2007)	9. Rentals or royalty received by the Company – 898 666.56 thousand RUR	
	10. The Company sold material and technical resources to the Counterparty with total value of 390 300 thousand RUR (0.05% of book value of the Company assets as of 31.03.2007)	10. Value of material and technical resources sold by the Company – 390 300 thousand RUR	
	11. The Counterparty rendered R&D services to the Company for total value of 1 000 thousand RUR (0.0001% of book value of the Company assets as of 31.03.2007)	11. Value of services paid by the Company – 1 000 thousand RUR	
	12. The Company rendered IT services to the Counterparty with total value of 6 944 thousand RUR (0.0009% of book value of the Company assets as of 31.03.2007)	12. Value of services rendered by the Company – 6 944 thousand RUR	
LLC RN-Stavropolneftegaz	1. The Counterparty rendered services to the Company in production of oil and gas condensate in the volume of 1 298 thousand tons and gas in the volume of 111.4 mscm at oil and gas deposits, the licenses for development of which belong to the Company, and transfer of the Company hydrocarbons so produced for further sales with total value of 3 947 354 thousand RUR (0.5% of book value of the Company assets as of 31.03.2007)	1. Value of services paid by the Company – 3 947 354 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Company sold gas to the Counterparty in the volume of 77 mscm with total value of 113 215 thousand RUR (0.01% of book value of the Company assets as of 31.03.2007)	2. The Value of gas sold by the Company – 113 215 thousand RUR	
	3. The Company sold petroleum products to the Counterparty in the volume of 17 thousand tons with total value of 295 637 thousand RUR (0.04% of book value of the Company assets as of 31.03.2007)	3. Value of petroleum products sold by the Company – 295 637 thousand RUR	

	4. The Company obtained interest free loans from the Counterparty for reallocation of funds for implementation of investment programs and repayment of financial liabilities in amount of 142 664 thousand RUR (0.02% of book value of the Company assets as of 31.03.2007)	4. Value of interest free loans obtained by the Company, – 142 664 thousand RUR	
	5. The Counterparty extended the maturity dates for the indebtedness of the Company under the loans granted by the Counterparty for reallocation of funds for implementation of investment programs and repayment of financial liabilities, in amount of 275 464 thousand RUR (0.03% of book value of the Company assets as of 31.03.2007)	5. Value of interest free loans obtained by the Company with extended maturity terms – 275 464 thousand RUR	
	6. The Counterparty (as the agent) utilized capital investments of the Company (as the Principal) targeted for construction of production facilities in the amount of 1 593 185 thousand RUR against the agent's fee in amount of 20 711.41 thousand RUR (0.003% of book value of the Company assets as of 31.03.2007)	6. Value of agent's fee paid by the Company – 20 711.41 thousand RUR	
	7. The Company leased fixed assets to the Counterparty against the royalty in amount of 363 919.94 thousand RUR (0.05% of book value of the Company assets as of 31.03.2007)	7. Rentals or royalty received by the Company – 363 919.94 thousand RUR	
	8. The Company sold material and technical resources to the Counterparty with total value of 1 098 900 thousand RUR (0.14% of book value of the Company assets as of 31.03.2007)	8. Value of material and technical resources sold by the Company – 1 098 900 thousand RUR	
	9. The Counterparty rendered R&D services to the Company for total value of 1 000 thousand RUR (0.0001% of book value of the Company assets as of 31.03.2007)	9. Value of services paid by the Company – 1 000 thousand RUR	
	10. The Company rendered IT services to the Counterparty with total value of 6 024 thousand RUR (0.0008% of book value of the Company assets as of 31.03.2007)	10. Value of services rendered by the Company – 6 024 thousand RUR	
LLC RN-Northern Oil	1. The Counterparty rendered services to the Company in production of oil and gas condensate in the volume of 5 691 thousand tons and gas in the volume of 334.89 mscm at oil and gas deposits, the licenses for development of which belong to the Company, and transfer of the Company hydrocarbons so produced for further sales with total value of 8 412 422 thousand RUR (1.06% of book value of the Company assets as of 31.03.2007)	1. Value of services paid by the Company – 8 412 422 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)

	2. The Company sold crude oil to the Counterparty in the volume of 37 thousand tons with total value of 213 892 thousand RUR (0.03% of book value of the Company assets as of 31.03.2007)	2. Value of crude oil sold by the Company – 213 892 thousand RUR	
	3. The Company sold gas to the Counterparty in the volume of 330 mscm with total value of 311 141 thousand RUR (0.04% of book value of the Company assets as of 31.03.2007)	3. The Value of gas sold by the Company – 311 141 thousand RUR	
	4. The Counterparty rendered services to the Company related to processing of 135 thousand tons of the Company crude oil, with total value of 80 880 thousand RUR (0.01% of book value of the Company assets as of 31.03.2007)	4. Value of services paid by the Company – 80 880 thousand RUR	
	5. The Company sold petroleum products to the Counterparty in the volume of 30 thousand tons with total value of 510 000 thousand RUR (0.06% of book value of the Company assets as of 31.03.2007)	5. Value of petroleum products sold by the Company – 510 000 thousand RUR	
	6. The Company obtained interest free loans from the Counterparty for reallocation of funds for implementation of investment programs and repayment of financial liabilities in amount of 777 250 thousand RUR (0.1% of book value of the Company assets as of 31.03.2007)	6. Value of interest free loans obtained by the Company, – 777 250 thousand RUR	
	7. The Company extended the maturity dates for the indebtedness of the Counterparty under the loans granted by the Company for financing of operations and investment programs of the Counterparty, in amount of 164 900 thousand RUR (0.02% of book value of the Company assets as of 31.03.2007)	7. Value of interest free loans granted by the Company with extended maturity terms – 164 900 thousand RUR	
	8. The Counterparty extended the maturity dates for the indebtedness of the Company under the loans granted by the Counterparty for reallocation of funds for implementation of investment programs and repayment of financial liabilities, in amount of 777 250 thousand RUR (0.1% of book value of the Company assets as of 31.03.2007)	8. Value of interest free loans obtained by the Company with extended maturity terms – 777 250 thousand RUR	

	9. The Counterparty (as the agent) utilized capital investments of the Company (as the Principal) targeted for construction of production facilities in the amount of 5 773 920 thousand RUR against the agent's fee in amount of 173 217.6 thousand RUR (0.02% of book value of the Company assets as of 31.03.2007)	9. Value of agent's fee paid by the Company – 173 217.6 thousand RUR	
	10. The Company leased fixed assets to the Counterparty against the royalty in amount of 2 573 825.2 thousand RUR (0.32% of book value of the Company assets as of 31.03.2007)	10. Rentals or royalty received by the Company – 2 573 825.2 thousand RUR	
	11. The Company sold material and technical resources to the Counterparty with total value of 1 806 800 thousand RUR (0.23% of book value of the Company assets as of 31.03.2007)	11. Value of material and technical resources sold by the Company – 1 806 800 thousand RUR	
	12. The Counterparty rendered R&D services to the Company for total value of 1 000 thousand RUR (0.0001% of book value of the Company assets as of 31.03.2007)	12. Value of services paid by the Company – 1 000 thousand RUR	
	13. The Company rendered IT services to the Counterparty with total value of 8 254 thousand RUR (0.001% of book value of the Company assets as of 31.03.2007)	13. Value of services rendered by the Company – 8 254 thousand RUR	
LLC RN-Yuganskneftegaz	1. The Company sold crude oil to the Counterparty in the volume of 53 thousand tons with total value of 307 139 thousand RUR (0.04% of book value of the Company assets as of 31.03.2007)	1. Value of crude oil sold by the Company – 307 139 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Company sold gas to the Counterparty in the volume of 248 mscm with total value of 228 441 thousand RUR (0.03% of book value of the Company assets as of 31.03.2007)	2. The Value of gas sold by the Company – 228 441 thousand RUR	
	3. The Company sold petroleum products to the Counterparty in the volume of 76 thousand tons with total value of 1 372 367 thousand RUR (0.17% of book value of the Company assets as of 31.03.2007)	3. Value of petroleum products sold by the Company – 1 372 367 thousand RUR	
	4. The Company obtained interest free loans from the Counterparty for reallocation of funds for implementation of investment programs and repayment of financial liabilities in amount of 1 669 200 thousand RUR (0.21% of book value of the Company assets as of 31.03.2007)	4. Value of interest free loans obtained by the Company, – 1 669 200 thousand RUR	

	5. The Counterparty (as the agent) utilized capital investments of the Company (as the Principal) targeted for construction of production facilities in the amount of 59 151 000 thousand RUR against the agent's fee in amount of 1 204 314.36 thousand RUR (0.15% of book value of the Company assets as of 31.03.2007)	5. Value of agent's fee paid by the Company – 1 204 314.36 thousand RUR	
	6. The Company sold material and technical resources to the Counterparty with total value of 15 888 000 thousand RUR (1.99% of book value of the Company assets as of 31.03.2007)	6. Value of material and technical resources sold by the Company – 15 888 000 thousand RUR	
	7. The Counterparty rendered R&D services to the Company for total value of 1 000 thousand RUR (0.0001% of book value of the Company assets as of 31.03.2007)	7. Value of services paid by the Company – 1 000 thousand RUR	
	8. The Company rendered IT services to the Counterparty with total value of 17 848 thousand RUR (0.002% of book value of the Company assets as of 31.03.2007)	8. Value of services rendered by the Company – 17 848 thousand RUR	
OJSC Grozneftegaz	1. The Counterparty rendered services to the Company related to production of crude oil in the volume of 2 106.3 thousand tons and gas in the volume of 454.91 mscm at oil and gas deposits in Chechen Republic, the licenses for development of which belong to the Company, and transfer of the Company hydrocarbons so produced for further sales with total value of 6 299 035 thousand RUR (0.79% of book value of the Company assets as of 31.03.2007)	1. Value of services paid by the Company – 6 299 035 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Company sold crude oil to the Counterparty in the volume of 2.4 thousand tons with total value of 14 400 thousand RUR (0.002% of book value of the Company assets as of 31.03.2007)	2. Value of crude oil sold by the Company – 14 400 thousand RUR	
	3. The Company sold gas to the Counterparty in the volume of 450 mscm with total value of 64 688 thousand RUR (0.008% of book value of the Company assets as of 31.03.2007)	3. The Value of gas sold by the Company – 64 688 thousand RUR	
	4. The Company sold petroleum products to the Counterparty in the volume of 90.21 thousand tons with total value of 1 396 402 thousand RUR (0.18% of book value of the Company assets as of 31.03.2007)	4. Value of petroleum products sold by the Company – 1 396 402 thousand RUR	
	5. The Company leased fixed assets to the Counterparty against the royalty in amount of 742.32 thousand RUR (0.00009% of book value of the Company assets as of 31.03.2007)	5. Rentals or royalty received by the Company – 742.32 thousand RUR	

	6. The Company sold material and technical resources to the Counterparty with total value of 467 500 thousand RUR (0.06% of book value of the Company assets as of 31.03.2007)	6. Value of material and technical resources sold by the Company – 467 500 thousand RUR	
LLC RN-Komsomolskiy Refinery	1. The Counterparty rendered services to the Company related to processing of 7 000 thousand tons of the Company crude oil, with total value of 5 579 397 thousand RUR (0.7% of book value of the Company assets as of 31.03.2007)	1. Value of services paid by the Company – 5 579 397 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Company granted interest free loans to the Counterparty for financing of its investment programs in amount of 93 639.1 thousand RUR (0.01% of book value of the Company assets as of 31.03.2007)	2. Value of interest free loans granted by the Company – 93 639.1 thousand RUR	
	3. The Company obtained interest free loans from the Counterparty for reallocation of funds for implementation of investment programs and repayment of financial liabilities in amount of 143 400 thousand RUR (0.02% of book value of the Company assets as of 31.03.2007)	3. Value of interest free loans obtained by the Company, – 143 400 thousand RUR	
	4. The Counterparty extended the maturity dates for the indebtedness of the Company under the loans granted by the Counterparty for reallocation of funds for implementation of investment programs and repayment of financial liabilities, in amount of 20 263 thousand RUR (0.003% of book value of the Company assets as of 31.03.2007)	4. Value of interest free loans obtained by the Company with extended maturity terms – 20 263 thousand RUR	
	5. The Counterparty (as the agent) utilized capital investments of the Company (as the Principal) targeted for construction of production facilities in the amount of 3 255 130 thousand RUR against the agent's fee in amount of 48 826.95 thousand RUR (0.006% of book value of the Company assets as of 31.03.2007)	5. Value of agent's fee paid by the Company – 48 826.95 thousand RUR	
	6. The Company leased fixed assets to the Counterparty against the royalty in amount of 752 168.4 thousand RUR (0.09% of book value of the Company assets as of 31.03.2007)	6. Rentals or royalty received by the Company – 752 168.4 thousand RUR	
	7. The Company sold material and technical resources to the Counterparty with total value of 224 100 thousand RUR (0.03% of book value of the Company assets as of 31.03.2007)	7. Value of material and technical resources sold by the Company – 224 100 thousand RUR	

OJSC Rosneft Oil Company-MZ Nefteproduct	1. The Company granted interest free loans to the Counterparty for financing of its investment programs in amount of 11 865 thousand RUR (0.001% of book value of the Company assets as of 31.03.2007)	1. Value of interest free loans granted by the Company – 11 865 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Company extended the maturity dates for the indebtedness of the Counterparty under the loans granted by the Company for financing of operations of the Counterparty, in amount of 10 423.82 thousand RUR (0.001% of book value of the Company assets as of 31.03.2007)	2. Value of interest free loans granted by the Company with extended maturity terms – 10 423.82 thousand RUR	
	3. The Counterparty (as the agent) utilized capital investments of the Company (as the Principal) targeted for construction of production facilities in the amount of 133 560 thousand RUR against the agent's fee in amount of 1 335.6 thousand RUR (0.0002% of book value of the Company assets as of 31.03.2007)	3. Value of agent's fee paid by the Company – 1 335.6 thousand RUR	
	4. The Company leased fixed assets to the Counterparty against the royalty in amount of 1 098, thousand RUR (0.0001% of book value of the Company assets as of 31.03.2007)	4. Rentals or royalty received by the Company – 1 098 thousand RUR	
	5. The Company sold material and technical resources to the Counterparty with total value of 23 200 thousand RUR (0.003% of book value of the Company assets as of 31.03.2007)	5. Value of material and technical resources sold by the Company – 23 200 thousand RUR	
LLC RN-Tuapse Refinery	1. The Counterparty rendered services to the Company related to processing of 5 000 thousand tons of the Company crude oil, with total value of 2 098 245 thousand RUR (0.26% of book value of the Company assets as of 31.03.2007)	1. Value of services paid by the Company – 2 098 245 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Company obtained interest free loans from the Counterparty for reallocation of funds for implementation of investment programs and repayment of financial liabilities in amount of 98 454.6 thousand RUR (0.01% of book value of the Company assets as of 31.03.2007)	2. Value of interest free loans obtained by the Company, – 98 454.6 thousand RUR	

	3. The Counterparty (as the agent) utilized capital investments of the Company (as the Principal) targeted for construction of production facilities in the amount of 6 588 110 thousand RUR against the agent's fee in amount of 79 057.32 thousand RUR (0.01% of book value of the Company assets as of 31.03.2007)	3. Value of fees payable by the Company – 79 057.32 thousand RUR	
	4. The Company leased fixed assets to the Counterparty against the royalty in amount of 448 547.2 thousand RUR (0.06% of book value of the Company assets as of 31.03.2007)	4. Rentals or royalty received by the Company – 448 547.2 thousand RUR	
	5. The Company rendered IT services to the Counterparty with total value of 350 thousand RUR (0.00004% of book value of the Company assets as of 31.03.2007)	5. Value of services rendered by the Company – 350 thousand RUR	
OJSC Rosneft Oil Company-Altainefteproduct	1. The Company sold petroleum products to the Counterparty in the volume of 280 thousand tons with total value of 4 873 410 thousand RUR (0.61% of book value of the Company assets as of 31.03.2007)	1. Value of petroleum products sold by the Company – 4 873 410 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction); S.V. Karaganov – member of the Board of OJSC Rosneft Oil Company, Chairman of the Board of Directors of OJSC Rosneft Oil Company-Altainefteproduct, which is the party of transaction
	2. The Company extended the maturity of promissory notes issued by the Company for redemption of fixed assets, in the amount of 2 715.55 thousand RUR (0.0003% of book value of the Company assets as of 31.03.2007)	2. The Value of the Company notes with maturity extended by the Company – 2 715.55 thousand RUR	
	3. The Company extended the maturity dates for the indebtedness of the Counterparty under the loans granted by the Company for financing of operations and investment programs of the Counterparty, in amount of 537 100 thousand RUR (0.07% of book value of the Company assets as of 31.03.2007)	3. Value of interest free loans granted by the Company with extended maturity terms – 537 100 thousand RUR	
	4. The Company leased fixed assets to the Counterparty against the royalty in amount of 6 165.72 thousand RUR (0.0008% of book value of the Company assets as of 31.03.2007)	4. Rentals or royalty received by the Company – 6 165.72 thousand RUR	
	5. The Company rendered IT services to the Counterparty with total value of 1 240 thousand RUR (0.0002% of book value of the Company assets as of 31.03.2007)	5. Value of services rendered by the Company – 1 240 thousand RUR	

OJSC Rosneft Oil Company-Artag	1. The Company sold petroleum products to the Counterparty in the volume of 61 thousand tons with total value of 1 109 375 thousand RUR (0.14% of book value of the Company assets as of 31.03.2007)	1. Value of petroleum products sold by the Company – 1 109 375 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Company granted interest free loans to the Counterparty for financing of its investment programs in amount of 28 300 thousand RUR (0.004% of book value of the Company assets as of 31.03.2007)	2. Value of interest free loans granted by the Company – 28 300 thousand RUR	
	3. The Company extended the maturity dates for the indebtedness of the Counterparty under the loans granted by the Company for financing of operations and investment programs of the Counterparty, in amount of 49 973.09 thousand RUR (0.006% of book value of the Company assets as of 31.03.2007)	3. Value of interest free loans granted by the Company with extended maturity terms – 49 973.09 thousand RUR	
	4. The Company leased fixed assets to the Counterparty against the royalty in amount of 4 074.6 thousand RUR (0.0005% of book value of the Company assets as of 31.03.2007)	4. Rentals or royalty received by the Company – 4 074.6 thousand RUR	
	5. The Company rendered IT services to the Counterparty with total value of 30 thousand RUR (0.000004% of book value of the Company assets as of 31.03.2007)	5. Value of services rendered by the Company – 30 thousand RUR	
LLC RN-Arkhangelsnefteproduct	1. The Company sold petroleum products to the Counterparty in the volume of 319 thousand tons with total value of 4 996 992 thousand RUR (0.63% of book value of the Company assets as of 31.03.2007)	1. Value of petroleum products sold by the Company – 4 996 992 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Counterparty rendered services to the Company related to transshipment of crude oil through railway oil-loading complex Privodino in the volume of 3 200 thousand tons with total value of 460 800 thousand RUR (0.06% of book value of the Company assets as of 31.03.2007)	2. Value of services paid by the Company – 460 800 thousand RUR	
	3. The Counterparty rendered services to the Company related to transshipment of crude oil for export through Arkhangelsk Terminal with the use of storage tanker in the volume of 3 200 thousand tons with total value of 75 456 thousand US dollars. (0.25% of book value of the Company assets as of 31.03.2007)	3. Value of services paid by the Company – 75 456 thousand US dollars.	

	4. The Company extended the maturity dates for the indebtedness of the Counterparty under the loans granted by the Company for financing of operations of the Counterparty, in amount of 28 816.66 thousand RUR (0.004% of book value of the Company assets as of 31.03.2007)	4. Value of interest free loans granted by the Company with extended maturity terms – 28 816.66 thousand RUR	
	5. The Counterparty (as the agent) utilized capital investments of the Company (as the Principal) targeted for construction of production facilities in the amount of 635 600 thousand RUR against the agent's fee in amount of 12 712 thousand RUR (0.002% of book value of the Company assets as of 31.03.2007)	5. Value of agent's fee paid by the Company – 12 712 thousand RUR	
	6. The Company leased fixed assets to the Counterparty against the royalty in amount of 357 269.96 thousand RUR (0.04% of book value of the Company assets as of 31.03.2007)	6. Rentals or royalty received by the Company – 357 269.96 thousand RUR	
	7. The Company sold material and technical resources to the Counterparty with total value of 51 000 thousand RUR (0.006% of book value of the Company assets as of 31.03.2007)	7. Value of material and technical resources sold by the Company – 51 000 thousand RUR	
	8. The Company rendered IT services to the Counterparty with total value of 1 093 thousand RUR (0.0001% of book value of the Company assets as of 31.03.2007)	8. Value of services rendered by the Company – 1 093 thousand RUR	
OJSC Rosneft Oil Company-Kabardino-Balkarian Fuels Company	1. The Company sold crude oil to the Counterparty in the volume of 72 thousand tons with total value of 468 000 thousand RUR (0.06% of book value of the Company assets as of 31.03.2007)	1. Value of crude oil sold by the Company – 468 000 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Company granted interest free loans to the Counterparty for financing of its investment programs in amount of 85 000 thousand RUR (0.01% of book value of the Company assets as of 31.03.2007)	2. Value of interest free loans granted by the Company – 85 000 thousand RUR	
	3. The Company extended the maturity dates for the indebtedness of the Counterparty under the loans granted by the Company for financing of its investment programs, in amount of 403 447.8 thousand RUR (0.05% of book value of the Company assets as of 31.03.2007)	3. Value of interest free loans granted by the Company with extended maturity terms – 403 447.8 thousand RUR	
	4. The Company leased fixed assets to the Counterparty against the royalty in amount of 3 344.64 thousand RUR (0.0004% of book value of the Company assets as of 31.03.2007)	4. Rentals or royalty received by the Company – 3 344.64 thousand RUR	

OJSC Rosneft Oil Company-Karachayevo-Cherkessknefte-product	1. The Company sold petroleum products to the Counterparty in the volume of 112 thousand tons with total value of 2 004 172 thousand RUR (0.25% of book value of the Company assets as of 31.03.2007)	1. Value of petroleum products sold by the Company – 2 004 172 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Company granted interest free loans to the Counterparty for financing of its investment programs in amount of 114 491 thousand RUR (0.01% of book value of the Company assets as of 31.03.2007)	2. Value of interest free loans granted by the Company – 114 491 thousand RUR	
	3. The Company extended the maturity dates for the indebtedness of the Counterparty under the loans granted by the Company for financing of operations, in amount of 40 000 thousand RUR (0.005% of book value of the Company assets as of 31.03.2007)	3. Value of interest free loans granted by the Company with extended maturity terms – 40 000 thousand RUR	
	4. The Counterparty (as the agent) utilized capital investments of the Company (as the Principal) targeted for construction of production facilities in the amount of 114 500 thousand RUR against the agent's fee in amount of 916 thousand RUR (0.0001% of book value of the Company assets as of 31.03.2007)	4. Value of agent's fee paid by the Company – 916 thousand RUR	
	5. The Company leased fixed assets to the Counterparty against the royalty in amount of 20 008.8 thousand RUR (0.003% of book value of the Company assets as of 31.03.2007)	5. Rentals or royalty received by the Company – 20 008.8 thousand RUR	
OJSC Rosneft Oil Company-Kubannefteproduct	1. The Company granted interest free loans to the Counterparty for financing of its investment programs in amount of 830 300.3 thousand RUR (0.10% of book value of the Company assets as of 31.03.2007)	1. Value of interest free loans granted by the Company – 830 300.3 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction); S.V. Karaganov – member of the Board of OJSC Rosneft Oil Company, member of the Board of directors OJSC Rosneft Oil Company-Kubannefteproduct, which is the party of transaction

	2. The Company leased fixed assets to the Counterparty against the royalty in amount of 29 850.6 thousand RUR (0.004% of book value of the Company assets as of 31.03.2007)	2. Rentals or royalty received by the Company – 29 850.6 thousand RUR	
	3. The Company rendered IT services to the Counterparty with total value of 615 thousand RUR (0.00008% of book value of the Company assets as of 31.03.2007	3. Value of services rendered by the Company – 615 thousand RUR	
OJSC Rosneft Oil Company-Kurganneftеproduct	1. The Company sold petroleum products to the Counterparty in the volume of 114 thousand tons with total value of 2 050 975 thousand RUR (0.26% of book value of the Company assets as of 31.03.2007)	1. Value of petroleum products sold by the Company – 2 050 975 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Company extended the maturity of promissory notes issued by the Company for redemption of fixed assets, in the amount of 12 556.33 thousand RUR (0.002% of book value of the Company assets as of 31.03.2007)	2. The Value of the Company notes with maturity extended by the Company – 12 556.33 thousand RUR	
	3. The Counterparty (as the agent) utilized capital investments of the Company (as the Principal), targeted for reconstruction of acquired filling stations, in the amount of 3 500 thousand RUR against the agent's fee in amount of 35 thousand RUR (0.000004% of book value of the Company assets as of 31.03.2007)	3. Value of agent's fee paid by the Company – 35 thousand RUR	
	4. The Company leased fixed assets to the Counterparty against the royalty in amount of 10 727.76 thousand RUR (0.001% of book value of the Company assets as of 31.03.2007)	4. Rentals or royalty received by the Company – 10 727.76 thousand RUR	
	5. The Company rendered IT services to the Counterparty with total value of 900 thousand RUR (0.0001% of book value of the Company assets as of 31.03.2007)	5. Value of services rendered by the Company – 900 thousand RUR	
OJSC Rosneft Oil Company-Murmansknefteproduct	1. The Company sold petroleum products to the Counterparty in the volume of 206 thousand tons with total value of 3 160 377 thousand RUR (0.39% of book value of the Company assets as of 31.03.2007)	1. Value of petroleum products sold by the Company – 3 160 377 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)

	2. The Company granted interest free loans to the Counterparty for financing of its investment programs in amount of 173 366 thousand RUR (0.02% of book value of the Company assets as of 31.03.2007)	2. Value of interest free loans granted by the Company – 173 366 thousand RUR	
	3. The Company extended the maturity of promissory notes issued by the Company for redemption of fixed assets, in the amount of 14 032 thousand RUR (0.002% of book value of the Company assets as of 31.03.2007)	3. The Value of the Company notes with maturity extended by the Company – 14 032 thousand RUR	
	4. The Company extended the maturity dates for the indebtedness of the Counterparty under the loans granted by the Company for financing of operations and investment programs of the Counterparty, in amount of 33 196.5 thousand RUR (0.004% of book value of the Company assets as of 31.03.2007)	4. Value of interest free loans granted by the Company with extended maturity terms – 33 196.5 thousand RUR	
	5. The Company leased fixed assets to the Counterparty against the royalty in amount of 6 694.08 thousand RUR (0.0008% of book value of the Company assets as of 31.03.2007)	5. Rentals or royalty received by the Company – 6 694.08 thousand RUR	
LLC RN-Nakhodkanefteproduct	1. The Company sold petroleum products to the Counterparty in the volume of 49 thousand tons with total value of 687 619 thousand RUR (0.09% of book value of the Company assets as of 31.03.2007)	1. Value of petroleum products sold by the Company – 687 619 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Company obtained interest free loans from the Counterparty for reallocation of funds for implementation of investment programs and repayment of financial liabilities in amount of 50 000 thousand RUR (0.006% of book value of the Company assets as of 31.03.2007)	2. Value of interest free loans obtained by the Company, – 50 000 thousand RUR	
	3. The Company extended the maturity dates for the indebtedness of the Counterparty under the loans granted by the Company for financing of operations, in amount of 45 000 thousand RUR (0.006% of book value of the Company assets as of 31.03.2007)	3. Value of interest free loans granted by the Company with extended maturity terms – 45 000 thousand RUR	
	4. The Counterparty (as the agent) utilized capital investments of the Company (as the Principal) targeted for construction of production facilities in the amount of 295 600 thousand RUR against the agent's fee in amount of 4 906.96 thousand RUR (0.0006% of book value of the Company assets as of 31.03.2007)	4. Value of agent's fee paid by the Company – 4 906.96 thousand RUR	

	5. The Company leased fixed assets to the Counterparty against the royalty in amount of 96 557.18 thousand RUR (0.01% of book value of the Company assets as of 31.03.2007)	5. Rentals or royalty received by the Company – 96 557.18 thousand RUR	
	6. The Company sold material and technical resources to the Counterparty with total value of 31 100 thousand RUR (0.004% of book value of the Company assets as of 31.03.2007)	6. Value of material and technical resources sold by the Company – 31 100 thousand RUR	
	7. The Company rendered IT services to the Counterparty with total value of 4 554 thousand RUR (0.0006% of book value of the Company assets as of 31.03.2007)	7. Value of services rendered by the Company – 4 554 thousand RUR	
OJSC Rosneft Oil Company-Smolensknefteproduct	1. The Company sold petroleum products to the Counterparty in the volume of 339 thousand tons with total value of 5 845 126 thousand RUR (0.73% of book value of the Company assets as of 31.03.2007)	1. Value of petroleum products sold by the Company – 5 845 126 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction); S.V. Karaganov – member of the Board of OJSC Rosneft Oil Company, member of the Board of directors OJSC Rosneft Oil Company-Smolensknefteproduct, which is the party of transaction
	2. The Company granted interest free loans to the Counterparty for financing of its investment programs in amount of 241 393.5 thousand RUR (0.03% of book value of the Company assets as of 31.03.2007)	2. Value of interest free loans granted by the Company – 241 393.5 thousand RUR	
	3. The Company leased fixed assets to the Counterparty against the royalty in amount of 21 364.68 thousand RUR (0.003% of book value of the Company assets as of 31.03.2007)	3. Rentals or royalty received by the Company – 21 364.68 thousand RUR	
	4. The Company rendered IT services to the Counterparty with total value of 3 000 thousand RUR (0.0004% of book value of the Company assets as of 31.03.2007)	4. Value of services rendered by the Company – 3 000 thousand RUR	
LLC RN-Tuapsenefteproduct	1. The Company sold petroleum products to the Counterparty in the volume of 147 thousand tons with total value of 1 920 949 thousand RUR (0.24% of book value of the Company assets as of 31.03.2007)	1. Value of petroleum products sold by the Company – 1 920 949 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)

	2. The Counterparty rendered services to the Company for transshipment of petroleum products to domestic market in the volume of 300 thousand tons with total value of 23 718 thousand RUR (0.003% of book value of the Company assets as of 31.03.2007)	2. Value of services paid by the Company – 23 718 thousand RUR	
	3. The Counterparty rendered services to the Company for transshipment of petroleum products for export in the volume of 6 700 thousand tons with total value of 45 900 thousand US dollars. (0.15% of book value of the Company assets as of 31.03.2007)	3. Value of services paid by the Company – 45 900 thousand US dollars.	
	4. The Company obtained interest free loans from the Counterparty for reallocation of funds for implementation of investment programs and repayment of financial liabilities in amount of 461 095.8 thousand RUR (0.06% of book value of the Company assets as of 31.03.2007)	4. Value of interest free loans obtained by the Company, – 461 095.8 thousand RUR	
	5. The Counterparty extended the maturity dates for the indebtedness of the Company under the loans granted by the Counterparty for reallocation of funds for implementation of investment programs and repayment of financial liabilities, in amount of 524 095.8 thousand RUR (0.07% of book value of the Company assets as of 31.03.2007)	5. Value of interest free loans obtained by the Company with extended maturity terms – 524 095.8 thousand RUR	
	6. The Counterparty (as the agent) utilized capital investments of the Company (as the Principal) targeted for construction of production facilities in the amount of 2 710 825 thousand RUR against the agent's fee in amount of 29 819.08 thousand RUR (0.004% of book value of the Company assets as of 31.03.2007)	6. Value of agent's fee paid by the Company – 29 819.08 thousand RUR	
	7. The Company leased fixed assets to the Counterparty against the royalty in amount of 780 398.26 thousand RUR (0.09% of book value of the Company assets as of 31.03.2007)	7. Rentals or royalty received by the Company – 780 398.26 thousand RUR	
OJSC Rosneft Oil Company-Yamalnefteproduct	1. The Company sold petroleum products to the Counterparty in the volume of 20.02 thousand tons with total value of 381 768.5 thousand RUR (0.05% of book value of the Company assets as of 31.03.2007)	1. Value of petroleum products sold by the Company – 381 768.5 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)

	2. The Company extended the maturity of promissory notes issued by the Company for redemption of fixed assets, in the amount of 48 874.31 thousand RUR (0.006% of book value of the Company assets as of 31.03.2007)	2. The Value of the Company notes with maturity extended by the Company – 48 874.31 thousand RUR	
	3. The Company leased fixed assets to the Counterparty against the royalty in amount of 7 498.2 thousand RUR (0.0009% of book value of the Company assets as of 31.03.2007)	3. Rentals or royalty received by the Company – 7 498.2 thousand RUR	
LLC RN-Vostoknefteproduct	1. The Company granted interest free loans to the Counterparty for financing of its investment programs in amount of 967 656 thousand RUR (0.12% of book value of the Company assets as of 31.03.2007)	1. Value of interest free loans granted by the Company – 967 656 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Company leased fixed assets to the Counterparty against the royalty in amount of 10 556.16 thousand RUR (0.001% of book value of the Company assets as of 31.03.2007)	2. Rentals or royalty received by the Company – 10 556.16 thousand RUR	
	3. The Company sold material and technical resources to the Counterparty with total value of 3 000 thousand RUR (0.0004% of book value of the Company assets as of 31.03.2007)	3. Value of material and technical resources sold by the Company – 3 000 thousand RUR	
	4. The Company rendered IT services to the Counterparty with total value of 4 600 thousand RUR (0.0006% of book value of the Company assets as of 31.03.2007)	4. Value of services rendered by the Company – 4 600 thousand RUR	
OJSC Rosneft Oil Company-Stavropolye	1. The Company sold petroleum products to the Counterparty in the volume of 386 thousand tons with total value of 6 618 918 thousand RUR (0.83% of book value of the Company assets as of 31.03.2007)	1. Value of petroleum products sold by the Company – 6 618 918 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction); S.V. Karaganov – member of the Board of OJSC Rosneft Oil Company, Chairman of the Board of Directors of OJSC Rosneft Oil Company-Stavropolye, which is the party of transaction

	2. The Company granted interest free loans to the Counterparty for financing of operations and investment programs in amount of 1 504 600 thousand RUR (0.19% of book value of the Company assets as of 31.03.2007)	2. Value of interest free loans granted by the Company – 1 504 600 thousand RUR	
	3. The Company extended the maturity dates for the indebtedness of the Counterparty under the loans granted by the Company for financing of operations and investment programs of the Counterparty, in amount of 118 328.7 thousand RUR (0.01% of book value of the Company assets as of 31.03.2007)	3. Value of interest free loans granted by the Company with extended maturity terms – 118 328.7 thousand RUR	
	4. The Company leased fixed assets to the Counterparty against the royalty in amount of 350.76 thousand RUR (0.00004% of book value of the Company assets as of 31.03.2007)	4. Rentals or royalty received by the Company – 350.76 thousand RUR	
	5. The Company rendered IT services to the Counterparty with total value of 677 thousand RUR (0.00008% of book value of the Company assets as of 31.03.2007)	5. Value of services rendered by the Company – 677 thousand RUR	
OAO Nakhodka Oil Loading and Trade Port	1. The Company granted interest free loans to the Counterparty for financing of operations and investment programs in amount of 130 000 thousand RUR (0.02% of book value of the Company assets as of 31.03.2007)	1. Value of interest free loans granted by the Company – 130 000 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Company obtained interest free loans from the Counterparty for reallocation of funds for implementation of investment programs and repayment of financial liabilities in amount of 26 000 thousand RUR (0.003% of book value of the Company assets as of 31.03.2007)	2. Value of interest free loans obtained by the Company, – 26 000 thousand RUR	
LLC Rosneft International Ltd.	1. The Company granted interest free loans to the Counterparty for financing of production activities in amount of 2 850 000 thousand RUR (0.36% of book value of the Company assets as of 31.03.2007)	1. Value of interest free loans granted by the Company – 2 850 000 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Company extended the maturity dates for the indebtedness of the Counterparty under the loans granted by the Company for financing of operations of the Counterparty, in amount of 4 341 077.97 thousand RUR (0.54% of book value of the Company assets as of 31.03.2007)	2. Value of interest free loans granted by the Company with extended maturity terms – 4 341 077.97 thousand RUR	

CJSC Sakhalin Projects	1. The Company granted interest free loans to the Counterparty for financing of operations and investment programs in amount of 245 800 thousand RUR (0.03% of book value of the Company assets as of 31.03.2007)	1. Value of interest free loans granted by the Company – 245 800 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Company extended the maturity dates for the indebtedness of the Counterparty under the loans granted by the Company for financing of operations of the Counterparty, in amount of 78 067.31 thousand RUR (0.009% of book value of the Company assets as of 31.03.2007)	2. Value of interest free loans granted by the Company with extended maturity terms – 78 067.31 thousand RUR	
	3. The Company leased fixed assets to the Counterparty against the royalty in amount of 585 thousand RUR (0.00007% of book value of the Company assets as of 31.03.2007)	3. Rentals or royalty received by the Company – 585 thousand RUR	
	4.The Company rendered IT services to the Counterparty with total value of 18 000 thousand RUR (0.002% of book value of the Company assets as of 31.03.2007)	4. Value of services rendered by the Company – 18 000 thousand RUR	
CJSC Zapad-Schmidt Neftegaz	1. The Company granted interest free loans to the Counterparty for financing of its investment programs in amount of 2 270 678.6 thousand RUR (0.28% of book value of the Company assets as of 31.03.2007)	1. Value of interest free loans granted by the Company – 2 270 678.6 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Company extended the maturity dates for the indebtedness of the Counterparty under the loans granted by the Company for financing of its investment programs of the Counterparty, in amount of 67 928.59 thousand RUR (0.008% of book value of the Company assets as of 31.03.2007)	2. Value of interest free loans granted by the Company with extended maturity terms – 67 928.59 thousand RUR	
CJSC Vostok-Schmidt Neftegaz	1. The Company granted interest free loans to the Counterparty for financing of its investment programs in amount of 2 772 238.5 thousand RUR (0.35% of book value of the Company assets as of 31.03.2007)	1. Value of interest free loans granted by the Company – 2 772 238.5 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Company extended the maturity dates for the indebtedness of the Counterparty under the loans granted by the Company for financing of its investment programs of the Counterparty, in amount of 745 708.53 thousand RUR (0.09% of book value of the Company assets as of 31.03.2007)	2. Value of interest free loans granted by the Company with extended maturity terms – 745 708.53 thousand RUR	

LLC Venineft	1. The Company granted interest free loans to the Counterparty for financing of its investment programs in amount of 4 517 020 thousand RUR (0.57% of book value of the Company assets as of 31.03.2007)	1. Value of interest free loans granted by the Company – 4 517 020 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Company extended the maturity dates for the indebtedness of the Counterparty under the loans granted by the Company for financing of its investment programs of the Counterparty, in amount of 1 730 197.5 thousand RUR (0.22% of book value of the Company assets as of 31.03.2007)	2. Value of interest free loans granted by the Company with extended maturity terms – 1 730 197.5 thousand RUR	
LLC RN-Kazakhstan	1. The Company granted interest free loans to the Counterparty for financing of its investment programs in amount of 717 930 thousand RUR (0.09% of book value of the Company assets as of 31.03.2007)	1. Value of interest free loans granted by the Company – 717 930 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
OJSC Russian Regional Development Bank	1. The Company granted interest free loans to the Counterparty for financing of its investment programs in amount of 826 000 thousand RUR (0.10% of book value of the Company assets as of 31.03.2007)	1. Value of interest free loans granted by the Company – 826 000 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction); S.M. Bogdanchikov – member of the Board of directors, Chairman of the Board, President of OJSC Rosneft Oil Company, Chairman of the Supervisory Board of OJSC Russian Regional Development Bank, which is the party of transaction A.I. Baranovskiy – member of the Board of OJSC Rosneft Oil Company, member of the Supervisory Board of OJSC Russian Regional Development Bank, which is the party of transaction

	2. The Company obtained bankers guarantee of the Counterparty in amount of 106 000 thousand RUR под 1.5 % per annum (0.01% of book value of the Company assets as of 31.03.2007)	2. Value of bankers guarantee received by the Company – 106 000 thousand RUR	
	3. The Counterparty rendered services to the Company related to brokerage of operations with securities for total value of 12 000 000 thousand RUR for a fee of 2 400 thousand RUR (0.0003% of book value of the Company assets as of 31.03.2007)	3. Value of fees payable by the Company – 2 400 thousand RUR	
LLC RN-Burenie	1. The Company granted interest free loans to the Counterparty for financing of operations and investment programs in amount of 4 140 172.3 thousand RUR (0.52% of book value of the Company assets as of 31.03.2007)	1. Value of interest free loans granted by the Company – 4 140 172.3 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Company obtained interest free loans from the Counterparty for reallocation of funds for implementation of investment programs and repayment of financial liabilities in amount of 746.8 thousand RUR (0.00009% of book value of the Company assets as of 31.03.2007)	2. Value of interest free loans obtained by the Company, – 746.8 thousand RUR	
	3. The Counterparty extended the maturity dates for the indebtedness of the Company under the loans granted by the Counterparty for reallocation of funds for implementation of investment programs and repayment of financial liabilities, in amount of 174 090.1 thousand RUR (0.02% of book value of the Company assets as of 31.03.2007)	3. Value of interest free loans obtained by the Company with extended maturity terms – 174 090.1 thousand RUR	
	4. The Company leased fixed assets to the Counterparty against the royalty in amount of 12 172.44 thousand RUR (0.002% of book value of the Company assets as of 31.03.2007)	4. Rentals or royalty received by the Company – 12 172.44 thousand RUR	
	5. The Company sold material and technical resources to the Counterparty with total value of 5 322 000 thousand RUR (0.67% of book value of the Company assets as of 31.03.2007)	5. Value of material and technical resources sold by the Company – 5 322 000 thousand RUR	
	6. The Company rendered IT services to the Counterparty with total value of 621 thousand RUR (0.00008% of book value of the Company assets as of 31.03.2007) under loans granted by the Company for financing of production activities of the Counterparty, in amount of 10 000 thousand RUR (0.001% of book value of the Company assets as of 31.03.2007)	6. Value of services rendered by the Company – 621 thousand RUR	

LLC RN-Energo	1. The Company extended the maturity dates for the indebtedness of the Counterparty under the loans granted by the Company for financing of operations of the Counterparty, in amount of 10 000 thousand RUR (0.001% of book value of the Company assets as of 31.03.2007)	1. Value of interest free loans granted by the Company with extended maturity terms – 10 000 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
LLC RN-Trade	1. The Company obtained interest free loans from the Counterparty for reallocation of funds for implementation of investment programs and repayment of financial liabilities in amount of 20 000 thousand RUR (0.003% of book value of the Company assets as of 31.03.2007)	1. Value of interest free loans obtained by the Company, – 20 000 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Company rendered IT services to the Counterparty with total value of 379 thousand RUR (0.00005% of book value of the Company assets as of 31.03.2007)	2. Value of services rendered by the Company – 379 thousand RUR	
OJSC Okhinskaya heat and power station	1. The Company granted interest free loans to the Counterparty for financing of production activities in amount of 1 534 thousand RUR (0.0002% of book value of the Company assets as of 31.03.2007)	1. Value of interest free loans granted by the Company – 1 534 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
LLC NK Rosneft NTS	1. The Company granted interest free loans to the Counterparty for financing of its investment programs in amount of 50 000 thousand RUR (0.006% of book value of the Company assets as of 31.03.2007)	1. Value of interest free loans granted by the Company – 50 000 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Company obtained interest free loans from the Counterparty for reallocation of funds for implementation of investment programs and repayment of financial liabilities in amount of 326 200 thousand RUR (0.04% of book value of the Company assets as of 31.03.2007)	2. Value of interest free loans obtained by the Company, – 326 200 thousand RUR	
	3. The Company leased fixed assets to the Counterparty against the royalty in amount of 7 784.28 thousand RUR (0.001% of book value of the Company assets as of 31.03.2007)	3. Rentals or royalty received by the Company – 7 784.28 thousand RUR	
	4. The Counterparty rendered R&D services to the Company for total value of 51 076 thousand RUR (0.006% of book value of the Company assets as of 31.03.2007)	4. Value of services paid by the Company – 51 076 thousand RUR	

	5. The Company rendered IT services to the Counterparty with total value of 1 970 thousand RUR (0.0002% of book value of the Company assets as of 31.03.2007)	5. Value of services rendered by the Company – 1 970 thousand RUR	
LLC RN-Sakhalin-NIPImorneft	1. The Company granted interest free loans to the Counterparty for financing of its investment programs in amount of 55 000 thousand RUR (0.007% of book value of the Company assets as of 31.03.2007)	1. Value of interest free loans granted by the Company – 55 000 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Counterparty rendered R&D services to the Company for total value of 18 000 thousand RUR (0.002% of book value of the Company assets as of 31.03.2007)	2. Value of services paid by the Company – 18 000 thousand RUR	
	3. The Company rendered IT services to the Counterparty with total value of 2 787 thousand RUR (0.0003% of book value of the Company assets as of 31.03.2007)	3. Value of services rendered by the Company – 2 787 thousand RUR	
LLC RN-UfaNIPIneft	1. The Company granted interest free loans to the Counterparty for financing of its investment programs in amount of 50 710.5 thousand RUR (0.006% of book value of the Company assets as of 31.03.2007)	1. Value of interest free loans granted by the Company – 50 710.5 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Company obtained interest free loans from the Counterparty for reallocation of funds for implementation of investment programs and repayment of financial liabilities in amount of 14 300 thousand RUR (0.002% of book value of the Company assets as of 31.03.2007)	2. Value of interest free loans obtained by the Company, – 14 300 thousand RUR	
	3. The Counterparty extended the maturity dates for the indebtedness of the Company under the loans granted by the Counterparty for reallocation of funds for implementation of investment programs and repayment of financial liabilities, in amount of 27 300 thousand RUR (0.003% of book value of the Company assets as of 31.03.2007)	3. Value of interest free loans obtained by the Company with extended maturity terms – 27 300 thousand RUR	
	4. The Counterparty rendered R&D services to the Company and consultancies for total value of 104 410 thousand RUR (0.01% of book value of the Company assets as of 31.03.2007)	4. Value of services paid by the Company – 104 410 thousand RUR	
	5. The Company rendered IT services to the Counterparty with total value of 4 642 thousand RUR (0.0006% of book value of the Company assets as of 31.03.2007)	5. Value of services rendered by the Company – 4 642 thousand RUR	

LLC Caspoil	1. The Company extended the maturity dates for the indebtedness of the Counterparty under the loans granted by the Company for financing of operations and investment programs of the Counterparty, in amount of 399 900 thousand RUR (0.05% of book value of the Company assets as of 31.03.2007)	1. Value of interest free loans granted by the Company with extended maturity terms – 399 900 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
OJSC ROSNEFTEGAZ	1. The Company leased fixed assets to the Counterparty against the royalty in amount of 913.32 thousand RUR (0.0001% of book value of the Company assets as of 31.03.2007)	1. Rentals or royalty received by the Company – 913.32 thousand RUR	I.I. Sechin – Chairman of the Board of Directors of OJSC Rosneft Oil Company, Chairman of the Board of Directors of OJSC ROSNEFTEGAZ, which is the party of transaction; S.M. Bogdanchikov – member of the Board of directors, Chairman of the Board, President of OJSC Rosneft Oil Company, member of the Board of directors OJSC ROSNEFTEGAZ, which is the party of transaction; S. Nikitin – Deputy Chairman of the Board of directors of OJSC Rosneft Oil Company, member of the Board of directors OJSC ROSNEFTEGAZ, which is the party of transaction

Transaction approved by the Board of Directors of OJSC Rosneft Oil Company (hereinafter – the Company) on 13.07.2007:			
OJSC VTB Bank	The Company obtained the loan for financing of its current business in amount of 8 400 000 thousand RUR at 6.75% per annum with maturity up to 12 months (0.9% of book value of the Company assets as of 01.07.2007)	Value of loan obtained by the Company – 8 967 000 thousand RUR	K.G. Androsov – member of the Board of directors OJSC Rosneft Oil Company, member of the Board of directors OJSC VTB Bank, which is the party of transaction; A.L. Kostin – member of the Board of directors OJSC Rosneft Oil Company, member of the Board of directors, Chairman of the Board – President of OJSC VTB Bank, which is the party of transaction
LLC RN-Purneftegaz	1. The Counterparty rendered services to the Company in production of oil and gas condensate in the volume of 14 963.3 thousand tons and gas in the volume of 11 691.6 mscm at oil and gas deposits, the licenses for development of which belong to the Company, and transfer of the Company hydrocarbons so produced for further sales with total value of 29 981 507.4 thousand RUR (3.76% of book value of the Company assets as of 31.03.2007)	1. Value of services paid by the Company – 29 981 507.4 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
Transactions approved by the General Meeting of Shareholders of OJSC Rosneft Oil Company 30.06.2007:			
LLC RN-Yuganskneftegaz	1. The Counterparty rendered services to the Company in production of oil and gas condensate in the volume of 91 500.0 thousand tons and gas in the volume of 2 520.0 mscm at oil and gas deposits, the licenses for development of which belong to the Company, and transfer of the Company hydrocarbons so produced for further sales with total value of 107 952 798.5 thousand RUR (13.55% of book value of the Company assets as of 31.03.2007)	1. Value of services paid by the Company – 107 952 798.5 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
	2. The Company leased fixed assets to the Counterparty against the royalty in amount of 26 890 725.4 thousand RUR (3.37% of book value of the Company assets as of 31.03.2007)	2. Rentals or royalty received by the Company – 26 890 725.4 thousand sand RUR	

OJSC Rosneft Oil Company-Kabardino-Balkarian Fuels Company	1. The Company sold petroleum products to the Counterparty in the volume of 1 650.0 thousand tons with total value of 28 050 000.0 thousand RUR (3.52% of book value of the Company assets as of 31.03.2007)	1. Value of petroleum products sold by the Company – 28 050 000.0 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)
OJSC Rosneft Oil Company-Kubannefteproduct	1. The Company sold petroleum products to the Counterparty in the volume of 1 534.5 thousand tons with total value of 24 756 919.5 thousand RUR (3.11 % of book value of the Company assets as of 31.03.2007)	1. Value of petroleum products sold by the Company – 24 756 919.5 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction); S.V. Karaganov – member of the Board of OJSC Rosneft Oil Company, member of the Board of directors OJSC Rosneft Oil Company-Kubannefteproduct, which is the party of transaction
LLC RN-Vostoknefteproduct	1. The Company sold petroleum products to the Counterparty in the volume of 2 839.5 thousand tons with total value of 45 822 382.5 thousand RUR (5.75% of book value of the Company assets as of 31.03.2007)	1. Value of petroleum products sold by the Company – 45 822 382.5 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction)

OJSC Russian Regional Development Bank	1. Joint purchase and sales of foreign currency between the Company and the Counterparty at the exchange rate approved between the parties for total value of 103 000 000.0 thousand RUR (12.93% of book value of the Company assets as of 31.03.2007)	1. Value of hard currency engaged in the Company operations – 103 000 000.0 thousand RUR	OJSC ROSNEFTEGAZ – shareholder of OJSC Rosneft Oil Company, possessing over 20% of voting stock of the Company (The Counterparty is an affiliate of OJSC ROSNEFTEGAZ and the party of transaction); S.M. Bogdanchikov – member of the Board of directors, Chairman of the Board, President of OJSC Rosneft Oil Company, Chairman of the Supervisory Board of OJSC Russian Regional Development Bank, which is the party of transaction A.I. Baranovskiy – member of the Board of OJSC Rosneft Oil Company, member of the Supervisory Board of OJSC Russian Regional Development Bank, which is the party of transaction

All Related Party Transactions of OJSC Rosneft Oil Company in 2007 were concluded and realized in accordance with competitive market terms.

Appendix 6

Taxation of Dividends and Capital Gains

The following summary of material U.S. federal income, United Kingdom and Russian tax consequences of ownership of securities is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect as of May 31, 2008. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the securities. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of securities. Each prospective holder is urged to consult its own tax advisor as to the particular tax consequences to such holder of the ownership and disposition of the securities, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of May 31, 2008, and of any actual changes in applicable tax laws after such date.

Certain U.S. Federal Income Tax Considerations

This section is a summary, under current law, of certain U.S. federal income tax considerations relevant to beneficial owners of the ordinary shares or GDRs that are eligible for benefits as U.S. residents under the current income tax convention between the United States and Russia (the "*Treaty*") in respect of their investment in the ordinary shares or GDRs ("*U.S. shareholders*"). In general, a shareholder will be eligible for such benefits if the shareholder:

- Is:
  - An individual U.S. citizen or resident;
  - A U.S. corporation; or
  - A partnership, estate, or trust to the extent the shareholder's income is subject to taxation in the United States as the income of a resident, either in the shareholder's hands or in the hands of the shareholder's partners or beneficiaries;
- Is not also a resident of Russia for Russian tax purposes;
- Is the beneficial owner of the ordinary shares or GDRs (and the dividends paid with respect thereto);
- Holds the ordinary shares or GDRs as a capital asset for tax purposes;
- Does not hold the ordinary shares or GDRs in connection with the conduct of business through a permanent establishment, or the performance of personal services through a fixed base, in Russia; and
- Is not subject to an anti-treaty shopping provision in the Treaty that applies in limited circumstances.

This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular investor, and does not address the tax treatment of investors who are subject to special rules. It is based upon the assumption that prospective shareholders are familiar with the tax rules applicable to investments in securities generally and with any special rules to which they may be subject.

This summary has been written to support the marketing of the ordinary shares or GDRs. It is not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding U.S. federal income tax penalties. Investors should consult their own tax advisors in determining the tax consequences to them of investing in the ordinary shares or GDRs, including the application to their particular situation of the U.S. federal income tax considerations discussed below, as well as the application of state, local, foreign or other tax laws.

In general, for U.S. federal income tax purposes, U.S. shareholders will be treated as the beneficial owners of the ordinary shares underlying their GDRs.

Taxation of Dividends

U.S. shareholders must include the gross amount of cash dividends paid in respect of the ordinary shares or GDRs, without reduction for Russian withholding tax, in ordinary income on the date that they are treated as having received them, translating dividends paid in rubles into U.S. dollars using the exchange rate in effect on that date.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by a non-corporate U.S. shareholder in respect of the ordinary shares or GDRs before January 1, 2011 will be subject to taxation at a maximum rate of 15% if the dividends are "qualified dividends." Dividends received in respect of the ordinary shares or GDRs will be qualified dividends if the Company:

- Is eligible for the benefits of a comprehensive income tax treaty with the United States that the IRS has approved for the purposes of the qualified dividend rules; and
- Was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company ("*PFIC*").

The Treaty has been approved for the purposes of the qualified dividend rules. Based on the Company's audited financial statements and relevant market data, the Company believes that it was not treated as a PFIC for U.S. federal income tax purposes with respect to its 2007 taxable year. In addition, based on its audited financial statements and its current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market data, the Company does not anticipate becoming a PFIC for its 2008 taxable year or future taxable years.

Russian tax withheld from dividends will be treated, up to the 10% rate provided under the Treaty, as a foreign income tax that, subject to generally applicable limitations under U.S. tax law, generally is eligible for credit against the U.S. federal income tax liability of U.S. shareholders or, if they have elected to deduct such taxes, may be deducted in computing taxable income. See "–Russian Federation Tax Considerations–Taxation of Dividends–Non-Resident Holders" regarding the position that the Company intends to take in respect of its obligation to withhold Russian withholding tax on dividends that it pays to the Depositary.

In the case of any refund of Russian withholding tax pursuant to the Treaty, fluctuations in the ruble dollar exchange rate between the date that a U.S. shareholder is treated as receiving a dividend and the date that it receives the related refund of Russian withholding tax may give rise to foreign currency gain or loss, which generally is treated as ordinary income or loss for U.S. tax purposes.

Taxation of Sales or Other Taxable Dispositions

Sales or other taxable dispositions by U.S. shareholders generally will give rise to capital gain or loss equal to the difference between the U.S. dollar value of the amount realized on the disposition and the U.S. shareholder's U.S. dollar basis in the ordinary shares or GDRs. Any such capital gain or loss generally will be long-term capital gain or loss, subject to taxation at reduced rates for non-corporate taxpayers, if the ordinary shares or GDRs were held for more than one year. The deductibility of capital losses is subject to limitations.

Information Reporting and Backup Withholding

Dividends paid in respect of the ordinary shares or GDRs, and payments of the proceeds of a sale of the ordinary shares or GDRs, paid within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (i) is a corporation or other exempt recipient or (ii) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. A holder that is not a U.S. person generally will not be subject to information reporting or backup withholding, but may be required to provide a certification to establish its non-U.S. status in connection with payments received within the United States or through certain U.S.-related financial intermediaries.

U.K. Tax Considerations

The comments below are of a general nature and are based on current UK law and published H.M. Revenue & Customs practice as of May 31, 2008, as well as the provisions of the 1994 Income and Capital Gains Tax Convention between the United Kingdom and Russia (referred to in this discussion as the ‘‘*UK Treaty*’’), each of which is subject to change, possibly with retroactive effect.

The summary only covers the principal UK tax consequences for the absolute beneficial owners of ordinary shares and GDRs (and any dividends paid in respect of them), in circumstances where the dividends paid are regarded for UK tax purposes as that person’s own income (and not the income of some other person) and who:

- Are resident (and, in the case of individuals only, ordinarily resident and domiciled) in the United Kingdom for tax purposes;
- Are not resident in Russia;
- Do not have a permanent establishment or fixed base in Russia with which the holding of the ordinary shares or GDRs is connected; and
- Have not (and are not deemed to have) acquired the GDRs by virtue of an office or employment.

Such absolute beneficial owners of the ordinary shares or GDRs are referred to in this discussion as ‘‘*UK holders*.’’ In addition, the summary only addresses the principal UK tax consequences for UK holders who hold the ordinary shares or GDRs as capital assets. It does not address the UK tax consequences that may be relevant to certain other categories of holders, for example, brokers, dealers or traders in shares, securities or currencies. It also does not address the UK tax consequences for holders that are banks, financial institutions, insurance companies, collective investment schemes, tax-exempt organizations or persons connected with the Company.

Further, the summary assumes that:

- A holder of the GDRs is, for UK tax purposes, beneficially entitled to the underlying ordinary shares and to the dividends on those ordinary shares;
- The UK holder does not control or hold, either alone or together with one or more associated or connected persons, directly or indirectly, 10% or more of the shares and/or voting rights; and
- The ordinary shares will not be registered in a register kept in the United Kingdom by or on behalf of the Company.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular holder. Potential investors should satisfy themselves as to the overall tax consequences, including, specifically, the consequences under UK law and H.M. Revenue & Customs practice, of acquisition, ownership and disposition of ordinary shares or GDRs in their own particular circumstances, by consulting their own tax advisors.

Taxation of Dividends

Income Tax and Corporation Tax

UK holders will, in general, be subject to income tax or corporation tax on the total of the dividends received on their ordinary shares or GDRs plus any withholding tax deducted in Russia.

Withholding Tax and Tax Credits

When the Company pays dividends to UK holders, it generally must, for Russian tax purposes, act as a tax agent to withhold tax and remit the amount of tax due to the Russian state budget. See ''Taxation – Russian Tax Considerations – Taxation of Dividends.'' Under the UK Treaty, UK holders may be able to obtain relief at source, or a refund from the Russian tax authorities, in respect of withholding tax to the extent that it is levied at a rate in excess of 10% of the gross amount of the dividend. However, see ''Taxation – Russian Tax Considerations – Taxation of Dividends and ''Taxation – Russian Tax Considerations – Tax Treaty Relief Procedures''. Any remaining Russian withholding tax is generally allowed as a credit against the UK tax liability of a UK holder but any excess of such Russian withholding tax over the UK tax payable on the aggregate amount of the dividend and the Russian withholding tax is generally not refundable.

The Company need not make any deduction from payments of dividends for or on account of UK tax.

Tax Liability for Individual Holders

For an individual UK holder who is liable to UK tax on the dividend at the dividend upper rate (currently 32.5%), the UK tax will be chargeable on the gross dividend with credit (as described above) for Russian tax deducted at source. For an individual UK holder who is liable to UK tax on the dividend at the dividend ordinary rate (currently 10%), the credit for Russian tax deducted at source may equal or exceed his UK income tax liability in respect of the dividend, in which case he will have no further UK tax to pay. In either case, the amount of credit for Russian tax cannot exceed the credit that would have been allowed had all reasonable steps been taken under the UK Treaty and Russian domestic law to minimize the amount of tax payable in Russia, including obtaining relief at source and any available refunds.

Under proposals contained in the Finance Bill 2008, certain changes to the taxation of UK resident individuals owning shares of non-UK resident companies will be introduced with effect from April 6, 2008. If these proposals are enacted in their current form, a one-ninth dividend tax credit will generally be available in respect of dividends from non-UK resident companies. This credit is currently available for dividends in respect of UK companies and cannot be claimed as a cash payment. Draft legislation in the Finance Bill 2008 is not yet law and may be subject to change.

Tax Liability for Corporate Shareholders

A UK holder within the charge to corporation tax will be liable for UK corporation tax on the receipt of the gross dividend with credit for Russian tax deducted at source as described above. In appropriate cases, a holder may be entitled to relief at source or a refund of Russian tax.

Taxation of Capital Gains

The disposal or deemed disposal of ordinary shares or GDRs by UK holders may give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of capital gains (where the UK holder is an individual) and UK corporation tax on chargeable gains (where the UK holder is within the charge to UK corporation tax), depending on their circumstances and subject to any available exemption or relief. In addition, individual UK holders who dispose of their ordinary shares or GDRs while they are temporarily non-resident may be treated as disposing of them in the tax year in which they again become resident or ordinarily resident in the UK Any gains or losses in respect of currency fluctuations over the period of holding the ordinary shares or GDRs would also be brought into account on the disposal.

As regards individual UK holders, the principal factors that will determine the extent to which such gain will be subject to capital gains tax (''CGT'') are the extent to which they realize any other capital gains in that year, the extent to which they have incurred capital losses in that or any earlier year, and the level of the annual allowance of tax-free gains in the tax year in which the disposal takes place (the ''annual exemption'').

The annual exemption for individuals is GBP9,600 for the 2008-2009 tax year and, under current legislation, this exemption is, unless the UK Parliament decides otherwise, increased annually in line with the rate of increase in the retail price index (rounded up to the nearest GBP100).

A UK holder that is a company is entitled to an indexation allowance that applies to reduce capital gains to the extent that (broadly speaking) they arise due to inflation. Indexation allowance may reduce a chargeable gain but not create any allowable loss.

Under proposals contained in the Finance Bill 2008, certain changes to the UK capital gains tax regime will be introduced in relation to disposals of capital assets by individuals, trustees and personal representatives occurring on or after April 6, 2008. If these proposals are enacted in their current form, a single capital gains tax rate will be introduced (18% for the tax year 2008-2009) and certain reliefs that previously may have been available (such as taper relief) will no longer be available. These proposals do not affect holders within the charge to UK corporation tax. Draft legislation in the Finance Bill 2008 is not yet law and may be subject to change.

Stamp Duty and Stamp Duty Reserve Tax

No ad valorem stamp duty will be payable in the UK in connection with a transfer of ordinary shares executed and retained outside the UK. No stamp duty reserve tax (''SDRT'') will be payable in the UK in respect of any agreement to transfer ordinary shares for so long as they continue to be registered on a share register maintained outside the UK

No ad valorem stamp duty or SDRT will arise in the UK in respect of any dealings in the GDRs within a clearance service, where such dealings are effected in book entry form in accordance with the procedures of the clearance service and not by written instrument of transfer.

Inheritance Tax

UK inheritance tax may be chargeable on the death of, or in certain circumstances on a gift by the owner of, ordinary shares or GDRs, where the owner is an individual who is domiciled or is deemed to be domiciled in the UK For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rates apply to gifts where the donor reserves or retains some benefit.

Russian Federation Tax Considerations

The following is a summary of certain Russian tax considerations relevant to payments to Russian resident and non-resident holders of the ordinary shares or the GDRs and to the purchase, ownership and disposition of such ordinary shares or GDRs by their Russian resident and non-resident holders. The summary is based on the laws of Russia in effect on January 1, 2008. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of the Russian Federation. Nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there might be practical difficulties involved in claiming relief under an applicable double tax treaty. Prospective investors should consult their own advisors regarding the tax consequences of investing in the ordinary shares or the GDRs. No representations with respect to the Russian tax consequences to any particular holder are made hereby.

The Russian tax rules applicable to the ordinary shares and the GDRs are characterized by uncertainties and by an absence of interpretative guidance. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change than in a jurisdiction with more developed capital markets and more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectors.

For the purposes of this summary, a "*non-resident holder*" means:

- A physical person, actually present in the Russian Federation for less than 183 days in a given calendar year (excluding days of arrival into Russia, but including days of departure from Russia) that holds securities; or

- A legal person or organization, in each case not organized under Russian law, that holds and disposes of securities otherwise than through a permanent establishment in Russia.
- For the purposes of this summary, a "*Russian resident holder*" means:
- A physical person, actually present in the Russian Federation for 183 days or more in a given calendar year (excluding days of arrival into Russia, but including days of departure from Russia) that holds securities;
- A legal person or organization, in each case organized under Russian law, that holds securities; or
- A legal person or organization, in each case organized under a foreign law, that holds and disposes of securities through its permanent establishment in Russia.

Taxation of Dividends

A Russian company that pays dividends generally must act as a tax agent to withhold tax on the dividends and remit the amount of tax due to the Russian state budget. However, the applicable withholding tax rate will depend on the status of the dividend's recipient.

Russian Resident Holders

Dividends paid to Russian resident holders of ordinary shares are generally subject to Russian withholding tax at a rate of 9%. The effective rate of this tax may be lower than 9% owing to the fact that the Company should calculate this tax by multiplying the tax rate (9%) by the difference between (i) the dividends to be distributed by the Company to its shareholders (other than to non-resident companies and non-resident individuals) and (ii) dividends collected by the Company in the current and preceding tax periods from other Russian entities.

There are uncertainties in relation to withholding tax on dividends payable to Russian resident GDR holders. In particular, it is unclear whether this income may be treated as dividends for Russian tax purposes and what tax rate applies to this income. Also, there are no specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners. It is unclear therefore how the Russian tax authorities and courts will ultimately treat GDR holders in this regard. In 2005 and 2006, the Ministry of Finance expressed an opinion that GDR holders (rather than the relevant depositary) should be treated as the beneficial owners of dividends for the purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that tax residence of the GDR holders is duly confirmed.

In view of the foregoing, Russian residents are urged to consult their own tax advisors regarding the tax treatment of the purchase, ownership and disposition of the ordinary shares or the GDRs.

Non-Resident Holders

Dividends paid to non-resident holders of ordinary shares generally will be subject to Russian withholding tax, which will be withheld by the Company acting as a tax agent. The applicable domestic rates of withholding tax on such dividends currently are:

- 15% in the case of dividends paid to non-resident holders that are legal entities or organizations; and
- 30% in the case of dividends paid to non-resident individual holders.

These rates may be reduced under the terms of income tax treaties to which Russia is a party. However, because the beneficial ownership concept is not developed in Russian law, it is not clear whether the Depositary (the legal holder of the shares) or a GDR holder should be treated for the purposes of such treaties as the beneficial owner of the ordinary shares underlying the GDRs.

Unless the Company receives adequate clarification from the Russian tax authorities that, subject to certain certification requirements, it is appropriate under Russian law to withhold Russian withholding tax in respect of dividends that it pays to the Depositary at reduced rates under the relevant treaties instead of at the domestic rates applicable to such payments (currently 15%), the Company intends to withhold Russian withholding tax at the domestic rates applicable to such dividends, regardless of whether the Depositary (the legal owner of the shares) or a GDR holder would be entitled to reduced rates of Russian withholding tax under the relevant income tax treaty if it were the beneficial owner of the dividends for purposes of that treaty.

Although non-resident GDR holders may apply for a refund under the relevant income tax treaty of a portion of the amount withheld by the Company, the Company cannot make any assurances that the Russian tax authorities will grant any refunds.

Taxation of Capital Gains

Russian Resident Holders

Legal Entities and Organizations

Capital gains arising from the sale of ordinary shares or GDRs by any Russian resident holder that is a legal entity or organization will be taxable at a regular Russian tax rate of 24%. Russian tax law requires that profit arising from operations with securities quoted on a stock exchange must be calculated and accounted for separately from profits and losses from operations with securities that are not quoted on a stock exchange and from operating profits and losses. Therefore, Russian resident holders that are not individuals may be able to apply losses arising in respect of sales of the ordinary shares or GDRs only to offset capital gains, or as a carry forward to offset future capital gains, from the sale, exchange or other disposition of securities quoted on a stock exchange. Special tax rules apply to Russian legal entities that hold a dealer license. Transactions with the ordinary shares and the GDRs will also be subject to transfer pricing rules established by the Tax Code.

Individuals

Under Russian law, capital gains arising from a sale, exchange or other disposition of the ordinary shares or the GDRs by Russian resident holders will be subject to tax at a rate of 13% on an amount equal to the sales price less the acquisition value of the securities less other documented expenses related to the purchase, holding and sale of such securities. If the sale is made by a resident holder through a professional dealer or broker that is a Russian legal entity or a foreign company with a registered permanent establishment in Russia, such professional dealer or broker should also act as a tax agent and withhold the applicable tax. The amount of tax withheld will be calculated after taking into account deductions for the acquisition value and related expenses. The tax agent would be required to report to the Russian tax authorities the income realized by the resident individual and tax withheld upon the sale of securities by 1 April of the year following the reporting year. When a sale is made to other legal entities or individuals, generally no withholding of tax needs to be made and the resident holder would have an obligation to file a tax return, report his income realized and apply for a deduction of acquisition expenses, based on the provision of supporting documentation.

Because Russian law related to taxation of income derived by Russian resident holders (including legal entities, organizations and individuals) on a sale, exchange or other disposition of the ordinary shares or the GDRs is not entirely clear, Rosneft urges Russian residents to consult their own tax advisors regarding the tax treatment of the purchase, ownership and disposition of the ordinary shares or the GDRs.

Non-Resident Holders

Legal Entities and Organizations

Under current Russian law, capital gains arising from the sale, exchange or other disposition of ordinary shares or GDRs by non-resident holders (legal entities or organizations) should not be subject to tax in Russia if immovable property located in Russia constitutes 50% or less of the Company's assets.

The Company believes that immovable property located in Russia does not currently, and will not, constitute more than 50% of its assets. However, because the determination of whether more than 50% of the Company's assets consist of immovable property located in Russia is inherently factual and is made on an ongoing basis, and because the relevant laws and regulations are not entirely clear, there can be no assurance that immovable property located in Russia does not currently, or will not, constitute more than 50% of such assets.

If more than 50% of the Company's assets were to consist of immovable property located in Russia, then non-resident holders of ordinary shares or GDRs would be subject to a 20% withholding tax on the gross proceeds from a sale, exchange or other disposition of ordinary shares or GDRs, or 24% withholding tax on the capital gain realized from such sale, exchange or other disposal, capital gain being the difference between the sales price and acquisition costs of the ordinary shares or GDRs. However, gains arising from the sale of the ordinary shares or the GDRs on a foreign stock exchange by a non-resident holder that is a legal entity or organization should not be subject to taxation in Russia.

Individuals

Under Russian personal income tax law, gains from a sale, exchange or other disposal of ordinary shares or GDRs by non-resident holders who are individuals will likely be considered Russian source income, but will be subject to tax at the rate of 30% at the source of payment only if the sale was made by a non-resident holder through or to a professional dealer or broker that is a Russian legal entity or a foreign company with a permanent establishment in Russia.

According to Russian tax legislation, taxation of income for non-resident individual holders will depend on whether this income is received from Russian or non-Russian sources. Russian tax law gives no clear indication as to how the sale of securities should be sourced, other than that income from the sale of securities "in Russia" is Russian source. As there is no further definition of what should be considered to be a sale "in Russia", the Russian tax authorities have a certain amount of freedom to conclude what transactions take place in or outside Russia, including looking at the place of the transaction, the place of the issuer of the shares, or other similar criteria.

Any sale of securities in Russia by non-resident individual holders will be considered Russian source income and will be subject to tax at the rate of 30% on an amount equal to the sales price minus the acquisition value of the securities and other documented expenses related to the purchase, holding and sale of such securities. If the sale is made by a non-resident holder through a professional dealer or broker that is a Russian legal entity or a foreign company with a registered permanent establishment in Russia, such professional dealer or broker should also act as a tax agent and withhold the applicable tax. The amount of tax withheld will be calculated after taking into account deductions for the acquisition value and related expenses. The tax agent would be required to report to the Russian tax authorities the income realized by the resident individual and tax withheld upon the sale of the securities by 1 April of the year following the reporting year. When a sale is made to other legal entities or individuals, generally no withholding of tax needs to be made and the non-resident holder would have an obligation to file a tax return, report his income realized and apply for a deduction of acquisition expenses, based on the provision of supporting documentation.

A non-resident holder may be exempt from Russian withholding tax on the sale, exchange or other disposition of ordinary shares or GDRs in Russia under the terms of a double tax treaty between Russia and the country of residence of the non-resident holder. For example, under the U.S.-Russia Tax Treaty, U.S. holders are exempt from the withholding tax on capital gains unless 50% or more of the assets of the Company are represented by immovable property located in Russia. The U.K.-Russia Tax Treaty provides for an exemption from withholding tax on capital gains received by U.K. holders unless the gains relate to shares that derive all or substantially all of their value directly or indirectly from immovable property in Russia and are not quoted on an approved stock exchange. See "–Tax Treaty Procedures."

Tax Treaty Procedures

The relief at source and refund procedures discussed below may be more complicated with respect to GDRs due to separation of legal ownership and beneficial ownership of the ordinary shares underlying the GDRs. Russian tax law does not provide for clear guidance regarding availability of double tax treaty relief for GDR holders. Therefore, the Company cannot assure prospective GDR holders that relief at source or refunds will be available under the applicable tax treaty in respect of Russian taxes payable or withheld in respect of dividends on ordinary shares represented by GDRs.

The Profits Tax Chapter of the Tax Code does not provide for the requirement that a non-resident holder that is a legal entity or organization must obtain tax treaty clearance from Russian tax authorities prior to receiving any income at a reduced rate of withholding tax at source under an applicable tax treaty. However, in connection with a tax audit, the Russian tax authorities may still dispute the non-resident's eligibility for the double tax treaty relief and require the tax agent (i.e., the company paying dividends or the Russian purchaser of the shares) to pay tax.

A non-resident investor seeking to obtain a reduced rate of Russian withholding tax at source under an income tax treaty must provide a confirmation of its tax treaty residence that is certified by the competent authorities in the relevant treaty jurisdiction in advance of the Company's payment of dividends. The residence confirmation needs to be reviewed on an annual basis and certified by the relevant authority. The residence confirmation may need to bear an apostille.

If the Russian tax authorities were to approve a certification process for the purposes of allowing the Company to withhold Russian withholding tax at reduced treaty rates in respect of dividends that it pays to the Depositary, it is anticipated that a U.S. GDR holder would be required to provide the Company with the U.S. GDR holder's certification of its last filed U.S. federal income tax return in the form of an IRS Form 6166 (an "IRS Form 6166") in order to allow the Company to comply with that certification process.

For this purpose, it also may be necessary for a non-resident GDR holder to demonstrate its legal title to the relevant GDR interest.

The Deposit Agreement provides that the Depositary will make all reasonable efforts to provide the Company with certifications and other documents that are required in order to comply with any certification process that has been approved by the Russian tax authorities for this purpose.

An IRS Form 6166 can generally be obtained by filing a request (generally an IRS Form 8802) with the Internal

Revenue Service Center in Philadelphia, Pennsylvania, U.S. Residency Certification Request, P.O. Box 42530, Philadelphia PA 19101-2530, USA. U.S. GDR holders should consult their tax advisors and the instructions to IRS Form 8802 for further details on how to obtain this certification.

Under current Russian tax law and practice, advance relief from withholding taxes will generally be impossible for individual investors because it is very unlikely that the supporting documentation for the treaty relief can be provided to the tax authorities and approval from the latter obtained before the year end as currently required.

If a non-resident does not obtain double tax treaty relief at the time that income or gains are realized and tax is withheld by a Russian payer, the non-resident holder may apply for a refund within three years from the end of the tax period in which the tax was withheld, if the recipient is a legal entity or organization, or within the one-year period from the end of the tax period in which the tax was withheld, if the recipient is an individual. To process a claim of a refund, the Russian tax authorities require:

- An apostilled confirmation of the tax treaty residence of the non-resident at the time the income was paid;
- An application for refund of the tax withheld in a format provided by the Russian tax authorities (Form 1012DT for dividends and interest and 1011DT for other income); and
- Copies of the relevant contracts and payment documents confirming the payment of the tax withheld to the Russian Federation state budget.

The Russian tax authorities may require a Russian translation of some documents. The refund of the tax withheld should be granted within four month of the filing of the application for the refund and the relevant documents with the Russian tax authorities. However, procedures for processing such claims have not been clearly established and there is significant uncertainty regarding the availability and timing of such refunds.

Contact Information

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Rosneft Oil Company

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Corporate Website
Information on the Company and the results of its activity:
Russian version: www.rosneft.ru
English version: www.rosneft.com