



ROSNEFT

O I L C O M P A N Y

OPEN JOINT STOCK COMPANY

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED 31 MARCH 2007 AND 2006**

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

Overview

Rosneft is a vertically integrated oil and gas company with upstream and downstream operations located principally in Russia. Rosneft is one of the world's largest publicly traded oil companies in terms of proved crude oil reserves and among the top ten in terms of crude oil production. According to DeGolyer and MacNaughton (“**D&M**”), Rosneft's independent reservoir engineers, as of 31 December 2006, on the basis of the standards set forth by the Society of Petroleum Engineers (“**SPE**”), Rosneft had proved reserves of 20.09 billion boe, including proved crude oil reserves of approximately 15.96 billion barrels (2.20 billion tonnes) and proved gas reserves of approximately 701.07 bcm. Also according to D&M, as of 31 December 2006, Rosneft had SPE proved and probable crude oil reserves of approximately 24.72 billion barrels (3.40 billion tonnes) and SPE proved and probable gas reserves of approximately 1,133.86 bcm. Rosneft's reserves are located in Western Siberia, Timano-Pechora, the Russian Far East, Southern and Central Russia and Eastern Siberia. Rosneft also has significant prospective crude oil and gas resources in Western Siberia, the Russian Far East, which includes Sakhalin Island and the Kamchatka Peninsula, Southern Russia and Eastern Siberia. Rosneft has recently purchased additional reserves in Western and Eastern Siberia and in the Samara region as a result of auctions for the sale of certain exploration and production assets of OJSC Yukos (“**Yukos**”) won by Rosneft's subsidiary (Neft-Aktiv LLC) in May 2007. See “—Significant Acquisitions—2007—Purchase of Assets in Yukos Auctions”.

During the first quarter of 2007, Rosneft produced 1,643.60 thousand barrels of crude oil per day (20.22 million tonnes per quarter). In the first quarter of 2007, Rosneft sold approximately 68% of the crude oil it produced or purchased from third parties to customers outside Russia, comprising both sales to CIS countries and exports to international markets other than the CIS. Most of the remainder was refined in Russia at Rosneft's two main refineries, Tuapse and Komsomolsk, and at the Angarsk, Achinsk, Kuibyshev, Novokuibyshev and Syzran refineries formerly controlled by Yukos and then sold in the form of petroleum products in international and domestic markets. Rosneft has an integrated production, transportation, refining and marketing strategy and seeks to maximise netbacks by optimising its product mix, sales destinations and available transport routes. In May 2007, Rosneft purchased the Angarsk and Achinsk refineries in Eastern Siberia and the Kuibyshev, Novokuibyshev and Syzran refineries in the Samara region as a result of auctions for the sale of certain refining assets formerly controlled by Yukos, which were won by Rosneft (by the Company's subsidiary – Neft-Aktiv LLC). See “—Significant Acquisitions—2007—Purchase of Assets in Yukos Auctions”.

Rosneft's total revenues increased from U.S.\$ 7,327 million in the first quarter of 2006 to U.S.\$ 8,220 million in the first quarter of 2007 primarily as a result of increased sales volumes. Rosneft's net income was U.S.\$ 802 million in the first quarter of 2006 and U.S.\$ 358 million in the first quarter of 2007. The decline was mainly due to the impact of higher export customs duty, accrual of interest related to OJSC Yuganskneftegaz' (“**Yuganskneftegaz**”) tax liabilities for the years 1999-2004, which are in the process of being restructured, higher depreciation, depletion and amortisation and the appreciation of the rouble.

Business Segments and Intersegment Sales

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

Business Segments

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

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

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

Intersegment Sales and Segment Presentation

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

It is difficult to determine market prices for crude oil in the Russian domestic market, mainly due to the significant intragroup turnover within the vertically integrated oil companies that dominate the market. Moreover, to the extent they exist, crude oil market prices in Russia can be significantly lower than they might otherwise be due to seasonal oversupply and regional imbalances. Prior to the Share Swap in 2006, transaction prices for crude oil between Rosneft's companies were established taking into consideration market prices and transportation costs, but were also affected to a considerable degree by the capital investment requirements of different enterprises within the upstream segment. Accordingly, an analysis of individual segments in isolation from the analysis of other activities may present a distorted view of Rosneft's financial and operating performance. For this reason, the Company's management does not analyse each main business segment in isolation. The Company does, however, provide financial data by segment in Note 12 to the Interim Financial Statements.

On 1 October 2006, twelve subsidiaries, Yuganskneftegaz, OJSC Purneftegaz, OJSC Selkupneftegaz, OJSC Severnaya Neft, OJSC Krasnodarneftegaz, OJSC Stavropolneftegaz, OJSC Sakhalinmorneftegaz, OJSC Komsomolsky Refinery, OJSC Tuapsinsky Refinery, OJSC Arkhangelsknefteprodukt, OJSC Nakhodkanefteprodukt and OJSC Tuapsenefteprodukt (the "**Merged Subsidiaries**") were merged into the Company by means of a share swap (the "**Share Swap**") (see "**—Development of Rosneft—Consolidation via Share Swap**" below). Following the merger, the Company became the legal successor to the rights and obligations of the Merged Subsidiaries to the extent provided by Russian law. The Company leases the business units, which are the assets previously owned by the Merged Subsidiaries (the "**Business Units**") to wholly owned subsidiaries of the Company, which are limited liability operating and service companies each corresponding to a Merged Subsidiary and which operate these assets under service agreements. Revenues and costs from operations of the seven Merged Subsidiaries previously engaged in exploration and production were and continue to be accounted for under the upstream segment. Revenues and costs from operations of the five Merged Subsidiaries previously involved in refining and marketing were and continue to be accounted for under the downstream segment.

Significant Acquisitions

2007

Purchase of Assets in Yukos Auctions

Treasury Stock

On 27 March 2007, RN-Razvitie LLC, a wholly owned subsidiary of the Company, won the tender for the purchase of 9.44% of the share capital of the Company and promissory notes of Yuganskneftegaz having a face value of RUB 3,558 million (U.S.\$ 136 million at the Central Bank of Russia ("**CBR**") exchange rate in effect as at the date of the auction), from Yukos for a total consideration of RUB 197.84 billion (U.S.\$ 7.59 billion at the CBR exchange rate in effect as at the date of the auction). For the purposes of the Company's consolidated financial statements, the total aggregate consideration for the acquired assets was allocated to fair value on a *pro rata* basis and amounted to RUB 194.43 billion for Rosneft's shares, or RUB 194.43 per share (U.S.\$ 7.46 billion, or U.S.\$ 7.46 per share, at the CBR exchange rate in effect as at the date of the auction). Title to the shares and promissory notes was transferred to RN-Razvitie LLC on 17 April 2007.

Yukos Assets

In June 2007, the Company made an irrevocable offer to purchase certain assets of Yukos that were not purchased by the successful bidder at the auction. The assets comprise shares in various marketing and energy-generating companies located in the South region of Russia. The total consideration will be RUB 4.9 billion (U.S.\$ 188 million at the CBR rate as of 31 March 2007).

In April-May 2007, Neft-Aktiv LLC, a wholly owned subsidiary of the Company, won auctions for the sale of certain Yukos assets. These assets comprise shares in various exploration and production, refining,

service and marketing companies in Western and Eastern Siberia and in the Samara region, including OJSC Tomskneft-VNK, OJSC Samaraneftgaz and OJSC East Siberian Oil and Gas Company in the upstream segment and the Angarsk, Achinsk, Kuibyshev, Novokuibyshev and Syzran refineries together with 269 retail outlets in the downstream segment. The total aggregate consideration for the acquired assets was RUB 344.1 billion (U.S.\$ 13.3 billion at the CBR exchange rate in effect as at the date of the auctions). The Company is currently analysing the acquired assets and liabilities, including the tax and legal contingencies as of the acquisition date.

Financing of the Purchases

In March 2007, the Company and its wholly owned subsidiary RN-Razvitie LLC entered into loan agreements with a syndicate of international banks. The agreements provide for a U.S.\$ 9.5 billion part of the loan that has a six-month term, a U.S.\$ 6.0 billion part of the loan that has a 12-month term and a U.S.\$ 6.5 billion part of the loan that has an 18-month term. These loan agreements bear interest at the London inter-bank offered rate (“**LIBOR**”) plus 0.25-0.50% per annum, depending on the final repayment date. These loans were drawn to finance the purchase of the treasury stock and other Yukos assets described above in the course of auctions for the sale of these assets. The total amount under these loan agreements was U.S.\$ 22.0 billion and was drawn down through May 2007.

Truboprovodny Consortium Burgas-Alexandroupolis LLC

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

Ohinskaya TETS

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

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

Verkhnechonskneftgaz

In January 2007, the Company purchased 339,582 newly issued ordinary shares of OJSC Verkhnechonskneftgaz, an exploration and production company, for a total consideration of RUB 201 million (U.S.\$ 8 million at the CBR exchange rate in effect as at the transaction date). As a result, the Company maintained its 25.94% share in this company. The other shareholders of OJSC Verkhnechonskneftgaz are TNK-BP with a more than 60% share and Vostochno-Sibirskaya Gazovaya Kompaniya with a more than 11% share.

2006

Exponeft

In December 2006, the Company purchased 100% of LLC Exponeft for a total consideration of RUB 335 million (U.S.\$ 13 million at the CBR exchange rate in effect as at the transaction date). LLC Exponeft owns a network of filling stations in the Murmansk region.

Nakhodka Oil Seatrade Port

In June 2006, the Company purchased 97.51% of the shares of Nakhodka Oil Seatrade Port (“**Nefteport**”) for RUB 528 million (U.S.\$ 20 million at the CBR exchange rate in effect as at the settlement date). The acquisition created U.S.\$ 10 million in goodwill, which is attributed to synergies expected to result from the integration of Nefteport with the operations of the Company’s subsidiary LLC Nakhodkanefteprodukt.

Nefteport is one of the largest commercial trade seaports on Russia’s Pacific coast located in Novitsky Bay on the west side of the Nakhodka Gulf. Nefteport has now been integrated into Rosneft’s technological

and infrastructural chain for the storage and transshipment of oil products, enabling Rosneft to establish a single self-contained industrial complex in the Nakhodka Gulf, which the Company believes is one of the largest of its kind in Russia.

Udmurtneft

On 28 April 2006, the Company and China Petrochemical Corporation (“**Sinopec**”) entered into an option agreement granting to the Company an option to purchase a controlling interest in OJSC Udmurtneft (“**Udmurtneft**”) if Sinopec were to win the tender for purchasing 96.86% of Udmurtneft’s shares from OJSC TNK-BP (“**TNK-BP**”). In June 2006, TNK-BP announced its decision to sell 96.86% shares of Udmurtneft to Sinopec. Sinopec completed the purchase of Udmurtneft on 10 August 2006. In November 2006, the Company and Sinopec created a joint venture, Taihu Limited (“**Taihu**”), of which the Company owns 51% through its wholly owned subsidiary, Rosneft International Ltd., and Sinopec owns 49% through its wholly owned subsidiary, Sinopec Overseas Oil and Gas Ltd. Taihu purchased 96.86% of Udmurtneft’s shares via a wholly owned subsidiary, CJSC Promleasing, in December 2006 from Sinopec. The Company accounted for this investment using the equity method from December 2006. On 13 November 2006, Bank of China provided a credit facility to Taihu in the amount of U.S.\$ 3.6 billion for financing the purchase of the 96.86% stake in Udmurtneft and the additional 3.14% shares from minority shareholders of Udmurtneft. The cash flows of Udmurtneft will be used directly, to repay this financing.

Repayment of Carried Interest in Sakhalin-1 Joint Venture

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

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

Development of Rosneft

Increased Stakes in Subsidiaries

2006

Tuapsenfteprodukt

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

Daltransgaz

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

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

VBRR

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

In September 2006, the shareholders of VBRR approved an additional share issue of 223,500 shares (RUB 10,000 per share at par value), all of which will be purchased by the Company. The total par value of the shares to be purchased is RUB 2,238 million (U.S.\$ 85 million at the CBR exchange rate in effect as at 31 December 2006). As a result, the Company's ownership interest in VBRR will be increased to 94.00%. This additional share issue is planned to take place later in 2007.

Corporate Restructuring

RN-Burenie

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

Consolidation via Share Swap

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

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

Licences Won at Auctions

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

2007

Samara region

In June 2007, a subsidiary of the Company won an auction for licences for the exploration and development of two oil and gas fields in the Samara Region. The total cost of the licenses amounted to RUB 932 million (US\$ 36 million at the CBR rate as of 31 March 2007).

2006

Kulindinsky Block

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

North Charsky Block

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

Osoveysky Block

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

Danilovsky Block

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

Mogdinsky and Sanarsky Blocks

In April 2006, the Company won an auction for licences for the exploration and production of crude oil and gas in the Mogdinsky and Sanarsky blocks in the Irkutsk region. The total cost of the licences was RUB 2,523 million (USD 94 million at the CBR exchange rate in effect as at the settlement date). These blocks are located in close proximity to the Verkhnechonskoye field, currently under development, allowing for reduced development costs, should commercial volumes of hydrocarbons be discovered, through the share of certain infrastructure with the Verkhnechonskoye field. The licences were granted in July 2006 and expire in June 2031.

East Sugdinsky Block

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

Tukolandsky, Vadinsky and Pendomayakhsky Blocks

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

Strategic Partnership Agreement with Gazprom

On 28 November 2006, the Company and Gazprom entered into a strategic partnership agreement (the “**Strategic Partnership Agreement**”). The parties intend to participate jointly in tenders and auctions for subsoil use rights and implement joint projects, the terms of which will be defined under separate agreements, involving in particular, the creation of gas-processing and petrochemical facilities in Eastern Siberia and the Russian Far East. Both Rosneft and Gazprom will share equally in joint projects involving geological prospecting and development of gas deposits, except projects with third-party participation. Pursuant to the Strategic Partnership Agreement, Gazprom and its affiliated companies will purchase from Rosneft and its affiliated companies the excess of its actual production of natural gas at the Western Siberia fields connected to the Unified Gas Supply system (the “**UGSS**”), the national gas pipeline network operated by Gazprom, over the levels of Rosneft’s production in 2006, which was 8.45 bcm. The Strategic Partnership Agreement is effective until the end of 2015.

Shareholder and Operating Agreement with Sinopec on Sakhalin-3

On 26 March 2007, the Company and Sinopec entered into a shareholder and operating agreement for the exploration and development of a portion of the Veninsky block on the shelf of the Sakhalin Island (Sakhalin-3 project). According to this agreement, a wholly owned subsidiary of the Company, Rosneft International Ltd., and a wholly owned subsidiary of Sinopec, Sinopec Overseas Oil and Gas Limited, will hold the shares of Venin Holding Ltd., which was established in October 2006. Venin Holding Ltd. will in turn become the sole shareholder of LLC Venineft (“**Venineft**”) and the licence owner and operator of the

Sakhalin-3 project. The Company will have a 74.9% stake in the project, the remaining 25.1% being held by Sinopec.

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

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

Shareholder and Operating Agreement with KKC on West Kamchatka

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

Main Factors Affecting Results of Operations

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

- Changes in crude oil, petroleum products and gas prices;
- RUB/U.S.\$ exchange rate movements and inflation;
- Changes in mineral production tax and export customs duty;
- Changes in transport tariffs; and
- Acquisitions of upstream and downstream assets from Yukos as a result of the May 2007 auctions described above under “—Significant Acquisitions—2007—Purchase of Assets in Yukos Auctions”.

Changes in prices, export customs duty and transport tariffs can have a significant impact on the mix of products and export routes the Company selects, as it seeks to maximise netback prices for the crude oil it produces. Rosneft's net income has been negatively affected by a significant growth in export customs duty in the first quarter of 2007 despite a decrease in world crude oil prices due to the impact of the time lag in setting applicable export customs duty rates and due to the imposition of export customs duty on export sales of crude oil and petroleum products to Belarus effective from 1 January 2007.

Changes in Crude Oil, Petroleum Products and Gas Prices

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

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

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

	For the three months ended 31 March		% change from the three months ended 31 March
	2007 (U.S.\$ per barrel)	2006	2006 to 2007
World market			
Brent	57.75	61.75	(6.5)%
Urals (average Med+NWE)	54.30	58.20	(6.7)%
Dubai-Oman (Singapore)	55.52	58.49	(5.1)%
	(U.S.\$ per tonne)		
Fuel oil 3.5% (average Med)	256.11	283.90	(9.8)%
Gas oil 0.2% (average Med)	525.79	551.73	(4.7)%
Naphtha (average Med)	533.93	561.67	(4.9)%
Russian market⁽¹⁾	(U.S.\$ per tonne)		
Crude oil	195.24	256.41	(23.9)%
Fuel oil	130.74	205.92	(36.5)%
Diesel fuel	498.48	526.86	(5.4)%
High octane gasoline	731.49	651.45	12.3%
Low octane gasoline	556.35	541.74	2.7%

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

(1) Including VAT of 18%.

Rosneft's gas sales have been limited to date, but the Company's strategy anticipates a significant increase in its gas business. Gazprom controls access to the UGSS, and is the predominant supplier of gas in Russia and the only exporter of gas produced in Russia. Rosneft sells the gas it produces to Gazprom from time to time and is currently in the process of negotiating a long-term agreement to secure Rosneft's access to the UGSS for gas sales to third parties and to sell additional gas to Gazprom, consistent with the Strategic Partnership Agreement entered into between the Company and Gazprom on 28 November 2006. See "—Strategic Partnership Agreement with Gazprom." The Russian government regulates the prices for the gas Gazprom sells in Russia. While the regulated price has been rising in Russia, and is expected to continue to rise to a level closer to parity with export netbacks, it is currently still significantly below world prices levels. The regulated price has affected, and is likely to continue to affect, the pricing of the gas Rosneft sells to Gazprom from time to time or pursuant to the contract it is negotiating. Rosneft's average gas sale price was RUB 812 (U.S.\$ 30.84) per thousand cubic meters and RUB 589 (U.S.\$ 20.92) per thousand cubic meters in the first quarters of 2007 and 2006, respectively. These prices were affected by the appreciation of the rouble over the U.S. dollar.

For a discussion of the risks associated with crude oil, gas and petroleum products prices, see "—Quantitative and Qualitative Disclosures About Market Risk—Prices for Crude Oil, Gas and Petroleum Products Risk".

RUB/U.S.\$ Exchange Rate Movements and Inflation

The rouble – U.S. dollar exchange rate and inflation trends in the Russian Federation affect Rosneft's results of operations since most of Rosneft's revenues from sales of crude oil and petroleum products are denominated in U.S. dollars, while a substantial portion of its expenses are denominated in Russian roubles. Accordingly, any real appreciation of the rouble versus the U.S. dollar negatively affects Rosneft's margins. The rouble has appreciated against the U.S. dollar in real terms throughout the periods being analysed, and in nominal terms on average as well. The Company began to use currency hedging mechanisms in January 2007 in order to partially mitigate the effects of the fluctuation of the rouble against the U.S. dollar. See "—Quantitative and Qualitative Disclosures about Market Risk—Foreign Currency Risk".

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

Inflation and Exchange Rates

	For the three months ended 31 March		For the year ended 31 December		
	2007	2006	2006	2005	2004
Rouble inflation (CPI) ⁽¹⁾	3.4%	5.0%	9.0%	10.9%	11.7%
Rouble/U.S. dollar exchange rate at the beginning of the period ⁽¹⁾	26.33	28.78	28.78	27.75	29.45
Rouble/U.S. dollar exchange rate at the end of the period ⁽¹⁾	26.01	27.76	26.33	28.78	27.75
Average rouble/U.S. dollar exchange rate during the period ⁽¹⁾	26.31	28.16	27.19	28.29	28.81
Nominal appreciation/(depreciation) of the rouble, as calculated by Rosneft ⁽²⁾	1.2%	3.5%	9.3%	(3.6)%	6.1%
Real appreciation/(depreciation) of the rouble, as calculated by Rosneft ⁽²⁾	4.7%	8.7%	19.1%	6.9%	18.5%
Real appreciation/(depreciation) of the rouble ⁽¹⁾	2.3%	6.9%	16.7%	3.9%	14.0%

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

(2) Source: Rosneft.

Changes in Mineral Production Tax and Export Customs Duty

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

The table below sets forth the rates of mineral production tax and export customs duties during the periods being analysed:

	For the three months ended 31 March		% change from the three months ended 31 March 2006 to 2007
	2007	2006	
Mineral production tax			
Crude oil (RUB per tonne)	1,903	2,224	(14.4)%
Crude oil (U.S.\$ per barrel)	9.89	10.80	(8.4)%
Gas (RUB per thousand cubic meters)	147	147	0.0%
Export customs duty			
Crude oil (U.S.\$ per tonne)	180.03	167.10	7.7%
Crude oil (U.S.\$ per barrel)	24.61	22.84	7.7%
Light and medium distilled products (U.S.\$ per tonne)	133.60	129.20	3.4%
Fuel oil (U.S.\$ per tonne)	71.93	69.60	3.3%

Mineral Production Tax

The rate of mineral production tax for crude oil in the first quarters of 2007 and 2006 was calculated by multiplying the base rate per tonne of crude oil produced by the adjustment ratio equal to $(P - 9) * R_t / 261$, where “P” is the average Urals price per barrel during the previous month, and “R_t” is the average rouble/U.S. dollar exchange rate established by the CBR during the previous month. The base rate was RUB 419 in the first quarter of 2007 and 2006.

In the first quarter of 2007, the rate of mineral production tax for crude oil decreased by 14.4%, primarily due to a decrease in crude oil prices by more than 5.1% and of the impact of the amended mineral production tax regime, as described below.

Excluding the effect of accruing in the first quarter of 2007 interest related to OJSC Yuganskneftegaz’ tax liabilities for the years 1999-2004 to be restructured, mineral production tax was U.S.\$ 9.37 per barrel of crude oil produced and U.S.\$ 8.09 per barrel of oil equivalent produced in the first quarter of 2007 and U.S.\$ 10.52 and U.S.\$ 9.13, respectively, in the first quarter of 2006.

The rate of mineral production tax for gas is flat and was RUB 147 per thousand cubic meters of gas produced in the first quarter of 2007, unchanged compared to the first quarter of 2006.

On 27 July 2006, the State Duma adopted the Federal law #No. 151 –FZ and on 30 December 2006, the Federal law #No. 268- FZ. These laws amended the mineral production tax regime. The key provisions of the laws are:

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

This legislation is expected to benefit Rosneft as it has extensive “greenfield” interests in Eastern Siberia and has significant “brownfield” interests that are 80-99% depleted. Rosneft expects that in 2007 it will receive approximately RUB 1.83 billion (U.S.\$ 70 million at the CBR exchange rate in effect as at 31 March 2007) in benefits as a result of this legislation. Rosneft expects this benefit to increase in the following years beyond the amount expected for 2007.

Export Customs Duty

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

The table below sets forth the calculation of export customs duty in the first quarters of 2007 and 2006:

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

While the average Urals prices decreased during the periods analysed, the rate of export customs duty for crude oil increased to U.S.\$ 180 per tonne (U.S.\$ 25 per barrel) of crude oil in the first quarter of 2007 from U.S.\$ 167 per tonne (U.S.\$ 23 per barrel) in the first quarter of 2006. This difference is primarily due to the Russian government setting the rate of export customs duty every two months based on changes in the average world prices for the Urals crude oil. Effective export customs duty with respect to oil and gas sales was U.S.\$ 23.3 per barrel of crude oil exported in the first quarter of 2007, excluding the effect of export customs duty on sales to Belarus, which is significantly lower than standard export customs duty, and U.S.\$ 22.7 per barrel of crude oil exported in the first quarter of 2006.

Export duties for petroleum products are established by the Russian government depending on rates of world crude oil prices. Until 1 January 2007, export duty was not payable on exports of crude oil and petroleum products to CIS countries that are members of the Customs Union, which are Belarus, Kazakhstan, Kirgiziya and Tadzhikistan. Starting from 1 January 2007, export customs duty is levied on export sales to Belarus as specified. Sales to countries that are exempt from paying export customs duty were U.S.\$ 43 million (1.46 million barrels) in the first quarter of 2007 and U.S.\$ 395 million (11.52 million barrels) in the first quarter of 2006.

Impact

When volumes of hydrocarbon sales remain unchanged, the mineral production tax and export customs duty reduce to a considerable degree the impact of upward or downward movements in crude oil export prices on the Company's net income from the export of crude oil after a time lag of several months from the change in the hydrocarbon prices.

For companies that pay income tax at 24% of marginal revenues, when crude oil prices are in excess of U.S.\$ 25 per barrel, the overall marginal rate of tax for exports of crude oil outside the CIS at the average Urals price was as follows:

	For the three months ended 31 March	
	2007	2006
Mineral production tax	21.95	21.95
Export customs duty rate above U.S.\$ 25 per barrel	65.00	65.00
	86.95	86.95
Profits tax at 24% on U.S.\$ 1 of marginal revenue after mineral production tax and export duty	3.13	3.13
Overall marginal rate	90.08	90.08

For any price increase above U.S.\$ 25 per barrel, the marginal rate of tax is higher than the effective rate, as export customs duty is a progressive tax. Based on a U.S.\$ 54.00 per barrel Urals crude oil price and the tax rates in the first quarter of 2007, the effective combined rate of mineral production tax and export customs duty would be 60.65% compared with the marginal rate of 86.95% shown in the table above.

As a result of these taxes, after a time lag of several months, the net income of businesses that export crude oil and petroleum products from Russia has a reduced sensitivity to changes in crude oil prices. Moreover, the impact of export customs duty on crude oil relative to the impact of excise taxes on petroleum products affects the choice to be made between exporting crude oil and refining it for sale both internationally and in Russia.

Changes in Transport Tariffs

Rosneft transports most of its crude oil through the pipeline network owned and operated by Transneft, a state-owned oil pipeline monopoly engaged in the transportation of crude oil in Russia and abroad. The FTS, a governmental body regulating the natural monopolies, sets annually Transneft's base tariff for the transportation of crude oil via trunk pipelines, which includes a dispatch tariff, a pumping tariff and a loading tariff. The dispatch tariff is set with respect to the entire pipeline network, and the other tariffs are set with respect to each Transneft "district" and the entry and exit points. From 1 January 2007, the FTS set the dispatch tariff at RUB 9.6778 per 100 tonne/km exclusive of VAT. The overall expense per tonne for the transport of crude oil depends on the length of the transportation route from the producing field to the ultimate destination and the number of Transneft "districts" through which the crude oil is transported. Rosneft's crude oil tariff per tonne of crude oil transported via Transneft increased by 10.7% on average in the first quarter of 2007 compared to the first quarter of 2006.

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

In the first quarter of 2007 and 2006, Rosneft exported approximately 12.2% and 11.7%, respectively, of its petroleum products through the pipeline system owned and operated by OJSC AK Transnefteprodukt ("**Transnefteprodukt**"), a state-owned petroleum products pipeline monopoly, soon to become Transneft's subsidiary, engaged in the transportation of petroleum products in Russia and abroad. The overall expense per tonne for the transport of petroleum products depends on the length of the transportation route to the ultimate destination. The petroleum products transported through the Transnefteprodukt pipeline system were produced at refineries formerly owned by Yukos located in the Samara region under processing contracts. Rosneft's petroleum products tariff per tonne of petroleum products transported via Transnefteprodukt increased by 255.0% in the first quarter of 2007 compared to the first quarter of 2006, due to the use of new logistical schemes and transportation routes (Ventspils and Bryansk-Ventspils) and due to rouble appreciation.

Rosneft also depends on railway transportation, which accounted for 30.6% of its export sales of crude oil in the first quarter of 2007, including railway used in a combination of transportation means, and approximately 62.2% of its export sales of petroleum products in the first quarter of 2007. In the first quarter of 2006, railway transportation accounted for 29.9% of the Company's export sales of crude oil and 32.2% of the Company's export sales of petroleum products. The Russian railway system ("**RZD**") is a state-owned monopoly provider of railway transportation services. Rosneft's railway tariff per tonne of crude oil shipped increased by 13% in the first quarter of 2007, generally due to more distant deliveries to China. RZD's tariffs are subject to control by FTS and to antimonopoly regulations.

Recent Acquisitions of Upstream and Downstream Assets from Yukos

Rosneft's acquisitions of upstream and downstream assets from Yukos as a result of the May 2007 auctions are expected to have a substantial impact on the Company's results of operations. While it is too early to gauge the full extent of this impact, Rosneft has identified five factors that it currently expects will influence its results. These include:

- increased debt and interest costs related to the financing and refinancing of the acquisitions. This debt and the related interest costs are expected to be gradually reduced over time in relation to earnings as the Company implements its financial strategy, which targets a ratio of financial debt to EBITDA of approximately one to one by the end of 2010;
- increased production of crude oil and petroleum products, the latter resulting from the utilisation by the five acquired refineries of increased volumes of Rosneft crude oil;
- increased capital expenditures, both upstream and downstream, as improvements are made to increase and optimize crude oil production and refining at the newly acquired assets;
- higher production and operating expenses, both upstream and downstream. Higher upstream expenses per barrel are expected to be reduced in relative terms over time as the company works to improve efficiency and purchases and to increase crude oil production at the new upstream assets. The increase in refining operating expenses is expected to be offset in part by significantly lower costs for refining crude oil at third-party refineries as these have now been incorporated into the group; and
- higher depreciation, depletion and amortisation due to the increased asset base in the group.

Management expects to develop and finalize its plans for the new assets in the course of 2007.

Production of Crude Oil, Petroleum Products and Gas

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

Production of Crude Oil

Rosneft produces crude oil at seven production Business Units and four fully consolidated production and development subsidiaries. The Company also has a 20% share in the Sakhalin-1 project consolidated into Rosneft under the proportionate consolidation method in which Rosneft recovered the right to receive its *pro rata* income following the repayment of the carried interest to Videsh starting from 31 July 2006. See “—Significant Acquisitions—2006—Repayment of Carried Interest in Sakhalin-1 Joint Venture.” In addition, Rosneft produces oil at two producing joint ventures, which Rosneft accounts for using the equity method. Yuganskneftegaz, Purneftegaz in Western Siberia and Severnaya Neft in Timano-Pechora are Rosneft's most important production and development Business Units, collectively accounting for 88.8% in the first quarter of 2007. Yuganskneftegaz accounted for 70.3%, Purneftegaz for 11.6% and Severnaya Neft for 6.9% of Rosneft's production in the first quarter of 2007.

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

	For the three months ended 31 March		% change from the three months ended 31 March
	2007 (millions of barrels)	2006	2006 to 2007 (%)
Crude oil production by Business Units and fully and proportionately consolidated subsidiaries ⁽¹⁾	147.92	136.11	8.7%
Crude oil production, as above, plus the share in production of joint ventures ⁽²⁾	154.38	137.24	12.5%

(1) Crude oil production by Business Units and subsidiaries includes Rosneft's net share of oil produced under the Sakhalin-1 PSA in the first quarter of 2007, net of an 8.00% royalty of 0.32 million barrels and a 2.07% Russian government's share of 0.08 million barrels.

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

In the first quarter of 2007, Rosneft increased its production of crude oil by 8.7%, to 147.92 million barrels compared with 136.11 million barrels in the first quarter of 2006. This growth was largely attributable to increased production by Yuganskneftegaz and to the Company's 20% share in the production of crude oil at Sakhalin-1. Production by Yuganskneftegaz increased from 96.21 million barrels in the first quarter of 2006, to 103.99 million barrels in the first quarter of 2007, or by 8.1%. The Company's net *pro rata* share of oil produced under the Sakhalin-1 PSA was 3.57 million barrels in the first quarter of 2007.

Daily crude oil production in the first quarter of 2007 was 1,643.60 thousand barrels as compared with 1,512.34 thousand barrels in the first quarter of 2006. Among the factors contributing to an increase in daily oil production was a rise in average well production rates from 107.24 barrels per day in the first quarter of 2006 to 109.73 barrels per day in the first quarter of 2007, in particular, for newly drilled wells from 705.82 to 806.00 barrels per day.

Production of Gas

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

	For the three months ended 31 March		% change from the three months ended 31 March
	2007 (billion cubic meters)	2006	2006 to 2007 (%)
Gas production by Business Units and fully and proportionately consolidated subsidiaries ⁽¹⁾	3.98	3.52	13.1%
Gas production, as above, plus the share in production of joint ventures ⁽²⁾	3.99	3.52	13.4%

(1) Gas production by Business Units and subsidiaries includes in the first quarter of 2007 Rosneft's net share of gas produced under the Sakhalin-1 PSA, net of an 8.00% royalty of 4.87 million cubic meters and a 2.07% Russian government's share of 1.26 million cubic meters.

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

Rosneft's gas production increased by 13.1% in the first quarter of 2007 to 3.98 bcm, primarily due to the growth of production in Krasnodarneftegaz, Selkupneftegaz and Purneftegaz. The level of associated gas utilisation was 64.2% in the first quarter of 2007 compared to 61.9% in the first quarter of 2006.

Rosneft has started developing a gas programme to increase the level of associated gas utilisation. This programme envisages the construction of associated gas gathering facilities, booster compression stations and underground gas storage facilities. In addition, Rosneft plans to improve the gas quality by constructing oil and gas separation equipment and gas treatment facilities.

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

Production of Petroleum Products

Rosneft refines the crude oil it produces at its two major refineries, Tuapse Refinery on the Black Sea in the South of Russia and Komsomolsk Refinery in the Russian Far East. Rosneft also arranges for the crude oil it produces to be processed at refineries owned by third parties. These operations have increased considerably from the beginning of 2005 as a result of purchasing Yuganskneftegaz and routing its oil production for processing at refineries formerly owned by Yukos. Rosneft purchased in May 2007 refineries formerly controlled by Yukos in Eastern Siberia and in the Samara region as a result of auctions for the sale of certain refining assets of Yukos won by Rosneft's subsidiary (Nefte-Aktiv LLC). See "—Significant Acquisitions—2007—Purchase of Assets in Yukos Auctions—Yukos Assets".

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

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

	For the three months ended 31 March		% change from the three months ended 31 March
	2007 (millions of tonnes)	2006	2006 to 2007 (%)
Petroleum products output by Tuapse Refinery, Komsomolsk Refinery and mini-refineries	3.00	2.70	11.1%
Petroleum products output by third party refineries	3.60	3.04	18.4%
Total	6.60	5.74	15.0%

In the first quarter of 2007, the Tuapse and Komsomolsk refineries processed 22.18 million barrels (3.03 million tonnes) of Rosneft-produced crude oil, 12.1% more than in the first quarter of 2006. The depth of refining by the Komsomolsk Refinery decreased from 62.2% in the first quarter of 2006 to 59.7% in the first quarter of 2007, and by the Tuapse Refinery from 56.5% in the first quarter of 2006 to 56.3% in the first quarter of 2007, yielding an aggregate of 2.94 million tonnes of petroleum products in the first quarter of 2007. The decrease in the depth of refining was due to changes in crude oil quality and in the product mix. The total output of petroleum products from Rosneft-produced crude oil, including output of mini-refineries and refineries controlled by third

parties, increased by 15.0%, from 5.74 million tonnes in the first quarter of 2006 to 6.60 million tonnes in the first quarter of 2007. In the first quarter of 2007, 23.75 million barrels of Rosneft-produced crude oil were refined at third party refineries, including the Angarsk, Achinsk, Kuibyshev, Novokuibyshev and Syzran refineries formerly controlled by Yukos that Rosneft purchased during the May 2007 auctions, yielding approximately 3.60 million tonnes of petroleum products.

In the first quarter of 2007, the Komsomolsk and Tuapse refineries did not refine crude oil produced by third parties. In the first quarter of 2006, the throughput of crude oil produced by third parties represented less than 0.2% of the total throughput of the two refineries.

Both the Tuapse Refinery and the Komsomolsk Refinery have been operating at near full capacity during the periods being analysed.

Results of Operations

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

	For the three months ended 31 March			
	2007		2006	
	(U.S.\$ millions)	% of total revenue	(U.S.\$ millions)	% of total revenue
Revenues				
Oil and gas sales	5,638	68.59%	5,039	68.77%
Petroleum products and processing fees	2,496	30.36%	2,219	30.29%
Support services and other revenues	86	1.05%	69	0.94%
Total revenues	8,220	100.00%	7,327	100.00%
Cost and expenses				
Production and operating expenses	542	(6.59)%	443	(6.05)%
Cost of purchased oil, gas, petroleum products and refining costs	480	(5.84)%	288	(3.93)%
Selling, general and administrative expenses	186	(2.26)%	142	(1.94)%
Pipeline tariffs and transportation costs	939	(11.42)%	735	(10.03)%
Exploration expenses	35	(0.43)%	26	(0.35)%
Depreciation, depletion and amortisation	673	(8.19)%	384	(5.24)%
Accretion expense	11	(0.13)%	8	(0.11)%
Taxes other than income tax	1,916	(23.31)%	1,609	(21.95)%
Export customs duty	2,678	(32.57)%	2,164	(29.53)%
Total cost and expenses	7,460	(90.74)%	5,799	(79.13)%
Operating income	760	9.26%	1,528	20.87%
Other income/(expenses)				
Interest income	37	0.45%	38	0.52%
Interest expense	(201)	(2.45)%	(206)	(2.81)%
Loss on disposal of property, plant and equipment	(12)	(0.15)%	(4)	(0.04)%
Gain on disposal of investments	4	0.05%	—	
Equity share in affiliates' (loss)/profits	(11)	(0.13)%	8	0.11%
Dividends and income from joint ventures	1	0.01%	1	0.01%
Other expenses, net	(51)	(0.62)%	(26)	(0.35)%
Foreign exchange loss	(47)	(0.57)%	(159)	(2.16)%
Total other income/(expenses)	(280)	(3.41)%	(348)	(4.72)%
Income before income tax and minority interest	480	5.85%	1,180	16.15%
Income tax expense	(121)	(1.47)%	(335)	(4.57)%
Income before minority interest	359	4.38%	845	11.58%
Minority interest in subsidiaries' earnings	(1)	(0.01)%	(43)	(0.59)%
Net income	358	4.37%	802	10.99%

Sales Revenues

The table below analyses revenues from sales of crude oil, gas, petroleum products and processing fees in the first quarters of 2007 and 2006:

	For the three months ended 31 March				% change from the three months ended 31 March
	2007		2006		2006 to 2007
	(U.S.\$ millions)	% of total revenue	(U.S.\$ millions)	% of total revenue	
Crude oil					
Export to non-CIS countries	5,159	62.8%	4,536	61.9%	13.7%
Europe and other directions	3,930	47.8%	3,573	48.8%	10.0%
Asia	1,229	15.0%	963	13.1%	27.6%
Export to CIS	362	4.4%	395	5.4%	(8.4)%
Domestic	38	0.5%	58	0.8%	(34.5)%
Gas	79	1.0%	50	0.7%	58.0%
Total oil and gas	5,638	68.7%	5,039	68.8%	11.9%
Petroleum products					
Export to non-CIS countries	1,315	15.9%	1,266	17.3%	3.9%
Europe and other directions	800	9.6%	810	11.1%	(1.2)%
Asia	515	6.3%	456	6.2%	12.9%
Export to CIS	24	0.3%	38	0.5%	(36.8)%
Domestic	1,157	14.1%	915	12.5%	26.4%
Wholesale	975	11.9%	780	10.7%	25.0%
Retail	182	2.2%	135	1.8%	34.8%
Total petroleum products and processing fees	2,496	30.3%	2,219	30.3%	12.5%
Support services and other revenues	86	1.0%	69	0.9%	24.6%
Total sales	8,220	100.0%	7,327	100.0%	12.2%

The table below analyses crude oil, gas and petroleum products sales volumes in the first quarters of 2007 and 2006:

	For the three months				% change from three months ended 31 March 2006 to 2007
	2007		2006		
		% of total sales volume		% of total sales volume	
Crude oil	(millions of barrels)				(%)
Export to non-CIS countries	96.56	61.6%	80.67	58.8%	19.7%
Europe and other directions	74.98	47.8%	64.45	47.0%	16.3%
Asia	21.58	13.8%	16.22	11.8%	33.0%
Export to CIS	10.10	6.5%	11.52	8.4%	(12.3)%
Domestic	1.39	0.9%	2.24	1.7%	(37.9)%
Crude oil	(millions of tonnes)				
Export to non-CIS countries	13.20	61.6%	11.03	58.8%	19.7%
Europe and other directions	10.25	47.8%	8.81	47.0%	16.3%
Asia	2.95	13.8%	2.22	11.8%	33.0%
Export to CIS	1.38	6.5%	1.58	8.4%	(12.3)%
Domestic	0.19	0.9%	0.31	1.7%	(37.9)%
Total crude oil sales	14.77	69.0%	12.92	68.9%	14.3%
Petroleum products					
Export to non-CIS countries	3.43	16.0%	3.27	17.5%	4.9%
Europe and other directions	2.16	10.1%	2.06	11.0%	4.9%
Asia	1.27	5.9%	1.21	6.5%	5.0%
Export to CIS	0.08	0.4%	0.13	0.7%	(38.5)%
Domestic	3.11	14.6%	2.43	12.9%	28.0%
Wholesale	2.84	13.3%	2.18	11.6%	30.3%
Retail	0.27	1.3%	0.25	1.3%	8.0%
Total petroleum product sales	6.62	31.0%	5.83	31.1%	13.6%
Total crude oil and petroleum product sales	21.39	100.0%	18.75	100.0%	14.1%
	(billion cubic meters)				
Gas	2.562		2.390		7.2%

Note: The total volume sold is different from the volume of crude oil produced due to changes in inventory levels, purchases for resale, own use of oil by Rosneft and losses during transportation and in refining.

Average Crude Oil and Petroleum Products Sales Prices Achieved by Rosneft

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

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

The following table sets forth the average export and domestic prices of crude oil, gas and petroleum products in the first quarters of 2007 and 2006:

	For the three months ended			
	31 March			
	2007		2006	
	(U.S.\$/ barrel)	(U.S.\$/ tonne)	(U.S.\$/ barrel)	(U.S.\$/ tonne)
Average export prices				
Crude oil export to non-CIS countries	53.43	390.83	56.23	411.24
Europe and other directions	52.41	383.41	55.44	405.56
Asia	56.95	416.61	59.37	433.78
Crude oil export to CIS	35.86	262.32	34.29	250.00
Petroleum products export to non-CIS countries	—	383.38	—	387.16
Europe and other directions	—	370.37	—	393.20
Asia	—	405.51	—	376.86
Petroleum products export to CIS	—	300.00	—	292.31
Average domestic prices				
Crude oil	27.34	200.00	25.89	187.10
Gas (U.S.\$/thousand cubic meter)	—	30.84	—	20.92
Petroleum products	—	372.03	—	376.54
Wholesale	—	343.31	—	357.31
Retail	—	672.73	—	546.56

Revenues were U.S.\$ 8,220 million in the first quarter of 2007, a 12.2% increase over the first quarter of 2006 (U.S.\$ 7,327 million). Revenues from the sale of crude oil and gas grew by 11.9%, and revenues from the sale of petroleum products by 12.5%, in the first quarter of 2007 compared with the first quarter of 2006. The growth in revenues was due to increased sales volumes of crude oil and petroleum products, offset in part by a decline in average world prices. The growth in volumes was made possible by an 8.7% increase in crude oil production and a 15.0% increase in petroleum product production during the period analysed.

Crude Oil Export Sales to Non-CIS Countries

In the first quarter of 2007, crude oil export revenues from exports to non-CIS countries were U.S.\$ 5,159 million compared to U.S.\$ 4,536 million in the first quarter of 2006, an increase of U.S.\$ 623 million, or 13.7%. The growth resulted from a 19.7% increase in sales volumes, which had a positive impact on revenues of U.S.\$ 892 million. The growth was partially offset by a 5.0% decrease in average prices, which decreased revenues by U.S.\$ 269 million. The price decrease was attributable to the general decline of world prices; in particular, the average price for Urals crude oil Mediterranean fell by 6.7%.

Crude Oil Export Sales to CIS

In the first quarter of 2007, revenues from sales of crude oil to the CIS were U.S.\$ 362 million compared to U.S.\$ 395 million in the first quarter of 2006, a decrease of U.S.\$ 33 million, or 8.4%. A 4.9% increase in prices, which would have increased revenues by U.S.\$ 17 million, was offset by a 12.3% decrease in volumes, which had a negative impact on revenues of U.S.\$ 50 million, mainly due to a shift of volumes from the CIS to other export destinations.

Crude Oil Domestic Sales

The volume of crude oil sold in Russia decreased significantly in the first quarter of 2007. Domestic crude oil sales decreased in the period by U.S.\$ 20 million to U.S.\$ 38 million as compared with the first quarter of 2006. This resulted from a 37.9% decrease in sales volume, contributing U.S.\$ 22 million of the decrease in revenues. This decrease was partially offset by a 6.9% increase in average prices, which had a positive impact on revenues of U.S.\$ 2 million. The decline in volumes resulted from the allocation of more crude oil to export sales and refining to achieve maximum netback prices as domestic sales of crude oil have a relatively low profitability, in comparison to export sales.

Petroleum Products Export Sales to Non-CIS Countries

Revenue from the export of petroleum products to non-CIS countries was U.S.\$ 1,315 million in the first quarter of 2007 compared to U.S.\$ 1,266 million in the first quarter of 2006, an increase of U.S.\$ 49 million, or 3.9%. The growth in revenue from the export of petroleum products was attributable to a 4.9% growth in sales volume, which had a positive impact on revenues of U.S.\$ 62 million, partially offset by a 1.0% decrease in average prices, which reduced revenues by U.S.\$ 13 million. The decrease in average prices was due to the overall decrease in world prices; in particular, the average price for fuel oil Mediterranean fell by 9.8%. The growth in volumes was mainly attributable to increased sales in Europe and other non-CIS countries and Asia.

Petroleum Products Export Sales to CIS Countries

In the first quarter of 2007, revenue from sales of petroleum products to the CIS were U.S.\$ 24 million compared to U.S.\$ 38 million in the first quarter of 2006, a decrease of U.S.\$ 14 million, or 36.8%. This decline resulted primarily from a 38.5% decrease in volumes, which was mainly due to a shift of volumes from the CIS to other export directions. The decrease in volumes resulted in a U.S.\$ 15 million decrease in revenue and was offset in part by a 2.6% increase in prices, which resulted in a U.S.\$ 1 million increase in revenue.

Petroleum Products Domestic Sales

Revenue from the sale of petroleum products on the domestic market was U.S.\$ 1,157 million in the first quarter of 2007 compared to U.S.\$ 915 million in the first quarter of 2006, an increase of U.S.\$ 242 million, or 26.4%. The growth in revenue from domestic sales of petroleum products was attributable to a 28.0% increase in sales volume, which had a positive impact on revenues of U.S.\$ 256 million. The volume growth was mainly attributable to an increase in crude oil production and a decrease in domestic crude oil sales. The growth was offset in part by a 1.2% decrease in average prices, which had a negative impact on revenues of U.S.\$ 14 million. The decrease in sales prices was mainly attributable to the decline in world prices of petroleum products.

Gas Sales

Revenue from the sale of gas was U.S.\$ 79 million in the first quarter of 2007 compared to U.S.\$ 50 million in the first quarter of 2006, an increase of U.S.\$ 29 million, or 58.0%. The growth in revenue from gas sales was attributable to a 47.4% increase in prices, which increased revenues by U.S.\$ 25 million, and a 7.2% growth in sales volume, from 2.390 bcm to 2.562 bcm, which had a positive impact on revenues of U.S.\$ 4 million.

Support Services and Other Revenues

Support services and other revenues were U.S.\$ 86 million in the first quarter of 2007, 24.6% higher than in the first quarter of 2006 (U.S.\$ 69 million). This growth was mainly attributable to an increase in the volume and value of drilling and rent services and sales of materials.

Costs and Expenses

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

	For the three months ended 31 March		% change from the three months ended 31 March
	2007 (U.S.\$ millions)	2006	2006 to 2007 (%)
Production and operating expenses	542	443	22.3%
Cost of purchased oil, gas, petroleum products and refinery costs	480	288	66.7%
Selling, general and administrative expenses	186	142	31.0%
Pipeline tariffs and transportation costs	939	735	27.8%
Exploration expenses	35	26	34.6%
Depreciation, depletion and amortisation	673	384	75.3%
Accretion expense ⁽¹⁾	11	8	37.5%
Taxes other than income tax	1,916	1,609	19.1%
Export customs duty	2,678	2,164	23.8%
Total costs and expenses	7,460	5,799	28.6%

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

Costs and expenses were U.S.\$ 7,460 million in the first quarter of 2007, or 28.6% higher than in the first quarter of 2006 (U.S.\$ 5,799 million). The growth in costs and expenses was driven by higher export customs duty, accrual of interest related to Yuganskneftegaz' tax liabilities, which are in the process of being restructured, higher depreciation, depletion and amortisation, pipeline tariffs and transportation costs, costs of purchased crude oil, and real rouble appreciation of 11.7% in the first quarter of 2007 as compared to the first quarter of 2006, according to the CBR. Costs and expenses accounted for 90.74% and 79.13% of Rosneft's total revenues in the first quarters of 2007 and 2006, respectively.

Production and Operating Expenses

In the first quarter of 2007, production and operating expenses were U.S.\$ 542 million compared to U.S.\$ 443 million in the first quarter of 2006, a 22.3% increase. The main contributors (excluding rouble appreciation of 11.7%) were higher production volumes, an increase in staff and employees, an increase in salaries, an increase in the cost of materials used in the downstream segment and an increase in well workovers expenses in the first quarter of 2007, as compared with the first quarter of 2006, due to abnormally low temperatures in the beginning of 2006.

Upstream production and operating expenses include costs related to raw materials and supplies, equipment maintenance and repair, wages and salaries, activities to enhance oil recovery, procurement of fuel and lubricants, electricity and other similar costs of production and exploration Business Units and subsidiaries. Upstream production and operating expenses were U.S.\$ 478 million in the first quarter of 2007, or U.S.\$ 3.23 per barrel of crude oil produced and U.S.\$ 2.79 per barrel of oil equivalent produced. These expenses were U.S.\$ 315 million in the first quarter of 2006, or U.S.\$ 2.31 per barrel of crude oil produced and U.S.\$ 2.01 per barrel of oil equivalent produced. Upstream production and operating expenses in the first quarter of 2007, net of Sakhalin-1 costs, were USD 3.00 per barrel of crude oil produced and USD 2.59 per barrel of oil equivalent produced. These measures are defined below under "—Key Financial Ratios."

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

Of the total production and operating expenses, the upstream and downstream segments accounted for U.S.\$ 478 million and U.S.\$ 45 million, respectively, in the first quarter of 2007 and U.S.\$ 315 million and U.S.\$ 118 million, respectively, in the first quarter of 2006.

Other activities' operating expenses accounted for U.S.\$ 19 million in the first quarter of 2007 and U.S.\$ 10 million in the first quarter of 2006.

The following table sets forth Rosneft's refining costs and volumes at its proprietary refineries during the periods being analysed (including refineries' operating expenses as well as selling, general and administrative expenses):

	For the three months ended 31 March		% change from the three months ended 31 March
	2007	2006	2006 to 2007
Refining costs for owned refineries (Komsomolsk and Tuapse Refineries) (U.S.\$ millions)	26	18	44.4%
Throughput at Rosneft-owned refineries (Rosneft's and other parties' crude oil) (millions of tonnes)	3.03	2.71	11.8%
Refining cost per tonne (U.S.\$)	8.58	6.64	29.2%

The main contributors to the growth of refining cost per tonne, excluding rouble appreciation of 11.7%, were increased rent expense and costs incurred in relation to new equipment put into use at the end of 2006.

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

The cost of purchased oil, gas, petroleum products and refining costs includes crude oil, gas and petroleum product procurement costs and costs of refining Rosneft's crude oil at third-party refineries. The costs of refining Rosneft's crude oil at third party refineries and petroleum products procurement costs have been high in absolute terms since they are driven by the imbalance between Rosneft's crude oil production and its refining capacity, as well as by the geographical complexity of Rosneft's logistics. These factors explain the high proportion of crude oil refining costs paid to third-party refineries, as well as the need to purchase petroleum products from third parties, in the first quarter of 2007.

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

	For the three months ended 31 March		% change from the three months ended 31 March
	2007	2006	2006 to 2007
Refining fees paid to third-party refineries (U.S.\$ millions)	154	105	46.7%
Rosneft crude oil throughput at third-party refineries (millions of tonnes)	3.87	3.25	19.1%
Refining fees per tonne (U.S.\$)	39.79	32.31	23.2%
Cost of procurement of gas (U.S.\$ millions)	10	—	100.0%
Procurement of gas (bcm)	0.30	—	100.0%
Cost of procurement of petroleum products from third parties by the downstream segment ⁽¹⁾ (U.S.\$ millions)	58	100	(42.0)%
Procurement of petroleum products from third parties by the downstream segment ⁽¹⁾ (millions of tonnes)	0.15	0.24	(37.5)%
Cost of procurement of crude oil from third parties by the downstream segment ⁽²⁾ (U.S.\$ millions)	258	83	210.8%
Procurement of crude oil from third parties by the downstream segment ⁽²⁾ (millions of barrels)	11.00	2.80	292.9%
Total cost of purchased oil, petroleum products and refining costs	480	288	66.7%

(1) The upstream segment also purchases petroleum products from third parties for use in its own operations. These purchases are reflected in production and operating expenses and are included in upstream operating expenses to calculate the relevant key performance indicators mentioned below.

(2) The Company purchases crude oil from Udmurtneft. In the first quarter of 2006, Rosneft also purchased crude oil from the Sakhalin-1 PSA. Starting from 31 July 2006, the Company started to account for Sakhalin-1 under the proportionate consolidation method.

In the first quarter of 2007, cost of purchased crude oil, petroleum products and refining costs were U.S.\$ 480 million, a 66.7% increase from U.S.\$ 288 million in 2006. The increase was mainly attributable to the growth in domestic purchase prices of crude oil. In addition, the Company began to purchase gas in 2007. These purchases amounted to U.S.\$10 million.

The cost of refining crude oil at third-party refineries is high relative to that of refining crude oil at Rosneft's refineries, since the processing fees charged by third parties are fully costed, while the cost of refining crude oil at Rosneft's refineries as reported above does not include depreciation, which is reported in depreciation, depletion and amortisation, and taxes other than income tax. The need to rely on third-party

refineries arose following the purchase of Yuganskneftegaz, when Rosneft's crude oil production increased significantly. At the end of the first quarter of 2005, Rosneft entered into agreements with refineries controlled at the time by Yukos for the refining of crude oil produced by Yuganskneftegaz. Rosneft purchased these refineries in the May 2007 auctions. In the first quarter of 2007, third-party refining fees increased by 46.7% compared to the first quarter of 2006, which is explained by a 19.1% increase in the volume of refining, whereas the processing cost per tonne at third party refineries increased by 23.2% compared to the first quarter of 2006 due to a revised agreement with Yukos to cover capital expenditures in certain refineries to meet the new quality standards EURO-2 and EURO-3 and due to expanding the product mix to include more expensive petroleum products, in particular, lubricants.

In some circumstances, it may be more economical for Rosneft to purchase petroleum products from third parties to supply, together with its own petroleum products, Rosneft's marketing and transshipment Business Units and subsidiaries. The volume of petroleum products purchased from third parties was 0.15 in the first quarter of 2007 and 0.24 million tonnes in the first quarter of 2006.

In the first quarter of 2006, Rosneft purchased almost all of the crude oil (approximately 2.80 million barrels) produced by the Sakhalin-1 joint venture for U.S.\$ 83 million. Approximately 1.98 million barrels of crude oil were supplied for refining to the Company's Komsomolsk Refinery and the rest was exported to Asia. Starting from September 2006, the Company no longer purchases oil from Sakhalin-1 since the parties to the PSA commenced exports via the Consortium's own terminal in De-Kastri, which started operations in the fourth quarter of 2006. In the fourth quarter of 2006, Rosneft started to purchase crude oil from Udmurtneft. The volume of crude oil purchased in the first quarter of 2007 was 11.00 million barrels accounting for U.S.\$ 258 million.

Selling, General and Administrative Expenses

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

Selling, general and administrative expenses in the first quarter of 2007 were U.S.\$ 186 million, 31.0% higher than in the first quarter of 2006 (U.S.\$ 142 million). This increase was mainly due to increased salaries and bonuses, which were U.S.\$ 83 million in the first quarter of 2007 versus U.S.\$ 56 million in the first quarter of 2006 due to increased number of employees.

Pipeline Tariffs and Transportation Costs

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

Pipeline tariffs and transportation costs grew to U.S.\$ 939 million in the first quarter of 2007 from U.S.\$ 735 million in the first quarter of 2006, a 27.8% increase due mainly to an increase in the volume of transported oil (*e.g.*, crude oil export volumes to Asia increased by 33.0%) and in the pipeline and railway tariffs of natural monopolies. Rosneft's crude oil export pipeline tariffs increased by 7.73% in the first quarter of 2007 compared to the first quarter of 2006. Rosneft's crude oil domestic pipeline tariffs for transportation to refineries increased by 13.7% in the first quarter of 2007 compared to the first quarter of 2006. Rosneft's tariff per tonne of exported petroleum products transported via Transnefteprodukt increased by 255.0% in the first quarter of 2007 compared to the first quarter of 2006, due to the use of new logistical schemes and transportation routes (Ventspils and Bryansk-Ventspils) and to rouble appreciation.

In the first quarter of 2007, Rosneft transported 50.0 million barrels (6.8 million tonnes) of crude oil via Transneft to domestic refineries and approximately 69.5 million barrels (9.5 million tonnes) for export sales via Transneft and CPC, compared to approximately 43.0 million barrels (5.9 million tonnes) of deliveries to domestic refineries and 60.2 million barrels (8.2 million tonnes) for export sales in the first quarter of 2006.

For the first quarter of 2007, the Company transported 2.4 million tonnes petroleum products, including 1.9 million tonnes by railroad, 0.3 million tonnes via pipelines and 0.2 million tonnes using a combination of transportation means. For the first quarter of 2006, the Company transported 1.4 million tonnes petroleum products, including 1.0 million tonnes by railroad, 0.1 million tonnes via pipelines and 0.3 million tonnes using a combination of transportation means.

Railway domestic tariffs increased by 17.0% and railway export tariffs increased by 6.0% in the first quarter of 2007 compared to the first quarter of 2006.

Exploration Expenses

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

In the first quarter of 2007, exploration expenses increased by U.S.\$ 9 million, or 34.6%, to U.S.\$ 35 million from U.S.\$ 26 million in the first quarter of 2006. The increase was mainly due to Yuganskneftegaz's and Vankorskoye field exploration works expenses.

Depreciation, Depletion and Amortisation

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

Depreciation, depletion and amortisation was U.S.\$ 673 million in the first quarter of 2007 compared to U.S.\$ 384 million in the first quarter of 2006. The 75.3% increase was mainly due to a revaluation of fixed assets as a result of the Share Swap and also due to increased capital expenditures, which resulted in an increased balance sheet value of fixed assets in the first quarter of 2007 compared to the first quarter of 2006. This increase was partially offset by a decrease in average depletion rates for oil and gas properties to 1.7% in the first quarter of 2007 from 1.9% in the first quarter of 2006.

Taxes Other than Income Tax

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

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

	For the three months ended 31 March		% change from the three months ended 31 March
	2007	2006	2006 to 2007
	(million U.S.\$)		(%)
Mineral production tax	1,609	1,432	12.4%
Excise tax	142	81	75.3%
Social security	48	35	37.1%
Property tax	38	23	65.2%
Land tax	2	2	0.0%
Transportation tax	1	0	100.0%
Other taxes and payments	76	36	111.1%
Total taxes other than income tax	1,916	1,609	19.1%

Taxes other than income tax increased by 19.1% in the first quarter of 2007 to U.S.\$ 1,916 million, compared to U.S.\$ 1,609 million in the first quarter of 2006. The growth in taxes resulted mainly from an increase in mineral production tax.

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 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 approximately U.S.\$ 388 million became due as of 1 June 2007. The additional amount of interest, not previously recorded, amounted to approximately U.S.\$ 332 million as of 31 March 2007. The total amount of interest and penalties payable as of 31 March 2007 amounted to U.S.\$ 831 million. The interest will continue to accrue in accordance with the Tax Code of the

Russian Federation based on CBR refinancing rate until the restructuring plan is approved by the Government of the Russian Federation, which is currently expected before the end of 2007. The total principle amount subject to tax restructuring provisions is U.S.\$1,260 million.

Tax restructuring rules generally provide for forgiveness of interest and penalties subject to overall compliance with the restructuring plan and accelerated payments of principal amounts of tax liabilities. The Company intends to comply with the tax restructuring plan, including acceleration provision, once and if it is in force. The management concluded that the criteria of ‘more-likely than-not’ in respect of forgiveness of income tax related interest and penalties is currently not met as well as ‘probable’ criteria in respect of forgiveness of all other tax interest and penalties. Therefore the full accrual of additional interest in the amount of U.S.\$ 332 million was recorded in the Interim Financial Statements for the period ended 31 March 2007 as a change in estimate.

Mineral production tax in the first quarter of 2006 included U.S.\$ 26 million fines accrued in relation to Yuganskneftegaz tax contingencies. The reduction in mineral production tax in the first quarter of 2007 compared to the first quarter of 2006 excluding the effect of the fines accrued in relation to the liabilities of Yuganskneftegaz was primarily attributable to tax benefits in relation to Rosneft’s “brownfield” interests. See “—Main Factors Affecting Results of Operations—Changes in Mineral Production Tax and Export Customs Duty—Mineral Production Tax.”

Export Customs Duty

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

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

	For the three months ended 31 March		% change from the three months ended 31 March
	2007	2006	2006 to 2007
	(U.S.\$ millions)		(%)
Export duty for crude oil	2,312	1,833	26.1%
Export duty for petroleum products	366	331	10.6%
Total export customs duties	2,678	2,164	23.8%

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

	For the three months ended 31 March	
	2007	2006
	(U.S.\$ per barrel, except %)	
Average Urals price	54.3	58.2
Customs duty as defined in customs legislation	23.1	25.6
Average price of crude oil sold by Rosneft to non-CIS countries	53.43	56.23
Export customs duty as % of average Urals prices as calculated	43%	46%
	(U.S.\$ million, except %)	
Crude oil customs duties ⁽¹⁾	2,312	1,833
Crude oil export sales ⁽²⁾	5,159	4,536
Export customs duty as % of crude oil export sales ⁽²⁾	45%	40%

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

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

For a description of calculation of the export customs duty under applicable Russian tax legislation, see “Main Factors Affecting Results of Operations—Changes in Mineral Production Tax and Export Customs Duty—Export Customs Duty.” The impact of the export customs duty on Rosneft’s margins varies from period to period depending not only on the average Urals price per barrel during each period but also on the timing and direction of price movements within each period. This is due to the more rapid impact of price changes on Rosneft’s revenue determined under U.S. GAAP than on the amount of export customs duty determined under

the formula. The effect of this timing factor can be seen in the relative movements over time of “export customs duty as percentage of average Urals prices, as calculated” and “export customs duty as percentage of crude oil export sales” in the preceding table. In the first quarter of 2007, the export customs duty declined as a percentage of average Urals prices, compared to the first quarter of 2006, while it increased as a percentage of crude oil export sales.

Export customs duties were U.S.\$ 2,678 million in the first quarter of 2007 compared to U.S.\$ 2,164 million in the first quarter of 2006. The increase resulted from a growth in export volumes to non-CIS countries of 19.7% for crude oil and 4.9% for petroleum products, and an increase in tariffs of export customs duties in the range of 3.3-7.7%, depending on the type of hydrocarbons. The increase also resulted from the introduction of export duty on crude oil exported from the Russian Federation to Belarus.

Operating Income

As a result of the factors discussed above, operating income decreased by 50.3% in the first quarter of 2007 compared to the first quarter 2006. As a percentage of total revenues, operating income was 9.26% and 20.87% in the first quarters of 2007 and 2006, respectively.

As a percentage of revenues operating income before taxes other than income tax and export customs duty was 65.14% and 72.35% in the first quarter of 2007 and 2006, respectively.

Other Income/(Expenses)

Interest Income

Interest income decreased by 2.6% to U.S.\$ 37 million in the first quarter of 2007 from U.S.\$ 38 million in the first quarter of 2006.

Interest Expense

Interest expense decreased by 2.4% to U.S.\$ 201 million in the first quarter of 2007 compared to U.S.\$ 206 million in the first quarter of 2006. In April 2006, Rosneft entered into a contract improving conditions of existing loan agreements, which decreased interest rates to LIBOR plus 0.7% (previously LIBOR plus 3.0%) for loans totalling U.S.\$ 4,770 million as of 31 December 2006 and decreased interest rates to LIBOR plus 0.65% (previously LIBOR plus 1.8-2.2%) for loans totalling U.S.\$ 2,643 million as of 31 December 2006.

Loss on Disposal of Property, Plant and Equipment

Rosneft disposes of property, plant and equipment from time to time. Loss on disposal of property, plant and equipment was U.S.\$ 12 million in the first quarter of 2007, compared to a loss of U.S.\$ 4 million in the first quarter of 2006.

Other Expenses, Net

Other expenses, net, consist principally of social expenditures and contributions to charity.

In the first quarter of 2007, other expenses, net, were U.S.\$ 51 million, a 96.2% increase from the first quarter of 2006, which amounted to U.S.\$ 26 million. This increase is primarily due to increased charity contributions.

Foreign Exchange Loss

Foreign exchange loss was U.S.\$ 47 million in the first quarter of 2007 compared to a foreign exchange loss of U.S.\$ 159 million in the first quarter of 2006. The decrease in the foreign exchange loss resulted from the impact of the further appreciation of the rouble against the U.S. dollar.

Income Tax Expenses

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

	For the three months ended 31 March	
	2007	2006
Effective income tax rate for Rosneft under U.S. GAAP	25%	28%

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 RAR. The U.S. GAAP effective profit tax rate was 25% in the first quarter of 2007, based on the projections for 2007, and 28% in the first quarter

of 2006, based on the projections for 2006, compared to the maximum rate of 24% established by the Russian tax legislation throughout the periods analysed.

The most significant factors influencing the effective income tax rate in the first quarter of 2007 and 2006 was the impact of foreign exchange gain determined under U.S. GAAP, which is not taxable and is included in income before tax and minority interest.

As discussed above under “—Business Segments and Intersegment Sales,” Rosneft subsidiaries engage in significant intragroup transactions for which Rosneft management determines transfer prices. Russian transfer pricing rules entered into force in 1999, giving Russian tax authorities the right to control transfer prices between transacting parties, for barter and foreign trade transactions where prices deviate more than 20% from the market price for similar transactions in the same period. For deviations of more than 20% from the market price, tax authorities may assign additional taxes and penalties, using the market price as a basis for calculating them. Russian transfer pricing rules are vaguely drafted, leaving wide scope for interpretation by Russian tax authorities and courts. Moreover, it is difficult to determine domestic market prices for crude oil. Due to the uncertainties in the interpretation of transfer pricing legislation, and the difficulty of determining domestic market prices for crude oil, the tax authorities may challenge Rosneft’s transfer prices and propose adjustments. If such price adjustments are upheld by the Russian courts and implemented, Rosneft’s future financial results could be adversely affected. In addition, Rosneft could face significant losses associated with the assessment of prior tax underpaid and related interest and penalties, which could have an adverse effect on Rosneft’s financial condition and results of operations. Rosneft seeks to ensure that its transfer pricing complies with the transfer pricing rules.

Income tax was U.S.\$ 121 million in the first quarter of 2007 compared to U.S.\$ 335 million in the first quarter of 2006. Current income tax decreased from U.S.\$ 413 million in the first quarter of 2006 to U.S.\$ 236 million in the first quarter of 2007, while deferred tax benefit increased from U.S.\$ 78 million to U.S.\$ 115 million, mainly due to the effect of the Share Swap resulting in increased US GAAP fixed assets value. The current income tax expense decreased due to lower taxable profit in 2007 as compared with 2006.

Minority Interest in Subsidiaries’ Earnings

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

Minority interest in subsidiaries’ earnings was U.S.\$ 1 million in the first quarter of 2007 compared to U.S.\$ 43 million in the first quarter of 2006, mainly as a result of the consolidation via the Share Swap.

Net Income

As a result of the factors discussed above, net income decreased by 55.4% to U.S.\$ 358 million in the first quarter of 2007 from U.S.\$ 802 million in the first quarter of 2006.

As a percentage of total revenues, net income was 4.37% and 10.99% in the first quarters of 2007 and 2006, respectively.

Liquidity and Capital Resources

Cash Flows

The principal items of the statement of cash flows for the first quarters of 2006 and 2007 are as follows:

	For the three months ended 31 March		% change for the three months ended 31 March
	2007 (U.S.\$ millions)	2006	2006 to 2007 (%)
Net cash provided by operating activities	894	1,413	(36.7)%
Net cash used in investing activities	(1,046)	(1,506)	(30.5)%
Net cash provided by/(used in) financing activities	1,271	(601)	311.5%

Net Cash Provided by Operating Activities

Net cash provided by operating activities was U.S.\$ 894 million in the first quarter of 2007 and U.S.\$ 1,413 million in the first quarter of 2006. This decrease principally reflected a decrease in net income in the first quarter of 2007 compared to the first quarter of 2006 and a significant increase in accounts receivable as of 31 March 2007 compared to 31 December 2006, mainly due to an increase in trade accounts receivable to U.S.\$ 1,675 million as of 31 March 2007 from U.S.\$ 1,176 million as of 31 December 2006 and an increase in banking loans to customers to U.S.\$ 679 million from U.S.\$ 580 million in connection with loans provided by VBRR and Dalnevostochny Bank, respectively.

Net Cash Used in Investing Activities

Net cash used in investing activities was U.S.\$ 1,046 million in the first quarter of 2007 compared to U.S.\$ 1,506 million in the first quarter of 2006. Net cash used in investing activities in the first quarter of 2006 included U.S.\$ 463 million resulting from the acquisition of Yukos debt from a consortium of Western banks in the total amount of U.S.\$ 483 million. Capital expenditures accounted for U.S.\$ 1,033 million in the first quarter of 2007, as compared with capital expenditures and licence acquisitions of U.S.\$ 848 million in the first quarter of 2006. The Company did not acquire new licenses in the first quarter of 2007.

Net Cash Provided by/(Used in) Financing Activities

Net cash provided by financing activities was U.S.\$ 1,271 million in the first quarter of 2007 compared to U.S.\$ 601 million used in financing activities in the first quarter of 2006. The change was primarily due to a RUB 39,100 million (U.S.\$ 1,503 million at the CBR exchange rate in effect on 31 March 2007) deposit paid by the Company in March 2007 to participate in the auction for the sale of one billion ordinary shares of the Company (9.44% of the share capital) that were owned by Yukos.

On 22 May 2007, Rosneft's Board of Directors recommended to the annual shareholders' meeting to declare annual dividends (based on the 2006 performance results) for common stock in the amount of RUB 14,096 million or RUB 1.33 per share (U.S.\$ 541.9 million or U.S.\$ 0.05 per share at the CBR rate as at 31 March 2007).

Capital Expenditures

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

	For the three months ended 31 December		% change from the three months ended 31 March 2006 to 2007
	2007	2006	(%)
	(U.S.\$ millions)		(%)
OJSC NK Rosneft - Yuganskneftegaz (RN- Yuganskneftegaz LLC)	457	317	44.2%
Vankorskoye field	276	1	27,500%
OJSC NK Rosneft - Purneftegaz (RN-Purneftegaz LLC)	51	36	41.7%
Sakhalin-1 PSA	39	-	100%
OJSC NK Rosneft - Severnaya Neft (RN-Severnaya Neft LLC)	39	30	30.0%
Other	54	82	34.1%
Total upstream segment	916	466	96.6%
OJSC NK Rosneft	50	14	257.1%
OJSC NK Rosneft - Tuapse refinery (RN-Tuapse Refinery LLC)	14	1	1,300%
OJSC NK Rosneft - Komsomolsk refinery (RN-Komsomolsky Refinery LLC)	7	0	100%
Marketing Business Units and subsidiaries	29	16	81.3%
Other	8	1	700%
Total downstream	108	32	237.5%
Other activities	9	92	(90.2)%
Total capital expenditures	1,033	590	75.1%
Licence acquisition costs	—	258	(100.0)%
Total capital expenditures and acquisition of licences	1,033	848	21.8%

Rosneft's total capital expenditures increased by 75.1% or by U.S.\$ 443 million to U.S.\$ 1,033 million in the first quarter of 2007 compared to U.S.\$ 590 million in the first quarter of 2006. The increase in capital expenditures in the first quarter of 2007 was primarily driven by the upstream segment, where capital expenditures increased by 96.6%, or by U.S.\$ 450 million. Upstream segment capital expenditures growth was mainly attributable to investments in Yuganskneftegaz, Sakhalin-1 PSA and the Vankorskoye field. There were no licence acquisition costs in the first quarter of 2007.

Downstream capital expenditures increased by 237.5%, to U.S.\$ 108 million, in the first quarter of 2007 from U.S.\$ 32 million in the first quarter of 2006 as a result of increased investments in the development of the Company's operations, as well as in the Komsomolsk and Tuapse refineries and in the Company's marketing and distribution subsidiaries.

Capital expenditures for other activities decreased by 90.2%, or by U.S.\$ 83 million, in the first quarter of 2007, compared to U.S.\$ 92 million in the first quarter of 2006, primarily as a result of the construction of twin-hull shuttle oil tankers in the first quarter of 2006.

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

Debt Obligations

Over the past years, Rosneft has raised significant amounts of funds through net additional short-term debt and long-term loans to supplement the net cash generated by Rosneft's operating activities in order to fund the capital expenditures required to develop Rosneft's upstream and downstream operations and to purchase new businesses, assets and licences, in particular in the upstream segment. Most of the additional debt was raised in the first quarter of 2007 in connection with the acquisition of Yukos assets.

Rosneft's total loans and borrowings increased to U.S.\$ 16,617 million as of 31 March 2007 from U.S.\$ 13,829 million as of 31 December 2006, primarily due to the drawing of U.S.\$ 2,635 million used to participate in the Yukos auctions in which Rosneft purchased treasury shares and intended to purchase OJSC

Gazpromneft shares and certain other assets (the bid was unsuccessful). In April-May 2007, Rosneft drew additional amounts in the aggregate amount of U.S.\$ 19,365 million to participate in auctions for the sales of other Yukos assets. See “Significant Acquisitions—2007—Purchase of Assets in Yukos Auctions.” These loans are a mix of short and medium term obligations, a significant part of which Rosneft plans to refinance over time. Additional borrowings contracted by Rosneft to fund the Yukos auctions are described below.

As of 31 March 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% *per annum* repayable in equal monthly installments. It is scheduled for repayment in 2011 and is secured by pledging the Company’s receivables under a long-term contract for the supply of crude oil.

Rosneft’s strategy has been to finance its growth primarily with long-term borrowings, which are predominantly denominated in U.S. dollars. Rosneft’s long-term borrowings (excluding the current portion of long-term debt) increased to U.S.\$ 8,663 million as of 31 March 2007 from U.S.\$ 7,402 million as of 31 December 2006. The weighted average rate of interest on Rosneft’s long-term loans denominated in U.S. dollars was 5.89% and 5.96% *per annum* (LIBOR plus 0.57% and LIBOR plus 0.64%) as of 31 March 2007 and 31 March 2006, respectively.

Long-term loans are generally secured by oil export contracts. Under the terms of such contracts, if the Company fails to repay debt in time, the lender is usually provided with an express right of claim for contractual revenue that must be remitted directly to U.S.\$ denominated accounts opened with the creditor banks. As of 31 March 2007 and 31 December 2006, 54.0% and 68.2%, respectively, of Rosneft’s borrowings were secured by crude oil export contracts (excluding export to the CIS). As of 31 March 2007 and 31 December 2006, pledged oil exports as a percentage of total crude oil export sales, constituted 40.0% and 31.8%, respectively.

As discussed in Note 7 to the Interim Financial Statements, the Company is obliged to comply with a number of restrictive financial and other covenants contained within its loan agreements. Restrictive covenants include maintaining certain financial ratios. As a result of the Company’s acquisition of OJSC Yuganskneftegaz in December 2004 and the resulting debt incurred and assets and liabilities, including consolidated contingent liabilities, the Company was not in compliance with various financial and other covenants of existing loan agreements as of that date. In July 2005, the creditors waived violations related to restrictive financial ratios and agreed to amend the financial ratio covenants in line with Rosneft’s new structure and scope of activities. The creditors also waived other events of default arising from the breach of other covenant provisions. With effect from 1 January 2007, the creditors granted amendments to the loan agreements which remove these provisions and have included new waivers which state that the Company must:

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

These conditions also apply to certain new borrowings obtained throughout the first quarter of 2007. As of 31 March 2007, the Company was in compliance with all restrictive financial and other covenants contained within its loan agreements.

Rosneft’s short-term borrowings (including the current portion of long-term debt) increased to U.S.\$ 7,954 million as of 31 March 2007 from U.S.\$ 3,925 million as of 31 March 2006. U.S. dollar-denominated short-term loans represent loans received from a consortium of international banks, bearing interest at LIBOR plus 0.25-0.50% annual interest rate depending on the final settlement date, and inter-bank loans entered into by the Company’s subsidiary bank. VBRR, bearing interest at LIBOR plus 0.25%- 3.02% *per annum*. The loans received from the consortium of international banks were drawn to finance the acquisition of certain assets during the auctions for sales of these assets. The rouble-denominated loans represent loans received from Russian banks, which generally bear interest ranging from 6.2% to 6.5% *per annum* depending on the maturity schedule, and inter-bank loans raised by the Company’s subsidiary bank VBRR bearing interest ranging from 4% to 7.25% *per annum*.

The following table shows the scheduled maturities of Rosneft’s long-term debt outstanding as of 31 March 2007:

	<u>(U.S.\$ millions)</u>
2007	2,063
2008	2,647
2009	2,900
2010	2,613
2011	751
2012 and after	339
Total long-term debt	<u>11,313</u>

In February 2007, the Company entered into a six month bridge loan with a consortium of international banks in the amount of U.S.\$ 2.5 billion at an interest rate of LIBOR plus 0.25 to 0.30% *per annum*, depending on the final repayment date. These funds were used for the temporary refinancing (until corresponding long-term loans are entered into) of short-term loans obtained from Russian banks in the fourth quarter of 2006 with less favourable terms. In May 2007, the Company entered into a five-year loan agreement with a syndicate of international banks for U.S.\$ 2 billion at LIBOR plus 0.5% *per annum* during the first three years and 0.575% *per annum* during the fourth-fifth years. The Company used these funds to refinance a portion of the short term bridge loan obtained from a consortium of international banks in February 2007.

In March 2007, RN-Razvitie, a wholly owned subsidiary of the Company, won the tender for the acquisition of 9.44% of the share capital of the Company and promissory notes of Yuganskneftegaz from Yukos for a total consideration of RUB 197.84 billion (U.S.\$ 7.59 billion at the CBR exchange rate in effect as at the date of the auction). For the purposes of the Company's consolidated financial statements, the total aggregate consideration for the acquired assets was allocated to fair value on a *pro rata* basis and amounted to RUB 194.43 billion for Rosneft's shares, or 194.43 RUB per share (U.S.\$ 7.46 billion, or U.S.\$ 7.46 per share, at the CBR exchange rate in effect as at the date of the auction). In April-May 2007, Neft-Aktiv LLC, a wholly owned subsidiary of the Company, won a number of auctions for the sale of certain Yukos assets. These assets comprise shares in various exploration and production, refining, service and marketing companies in Western and Eastern Siberia and in the Samara region. The total consideration for acquired assets was RUB 344.1 billion (U.S.\$ 13.3 billion at the CBR exchange rate as at the date of the auction). These purchases were financed by syndicated loans in the total aggregate amount of U.S.\$ 22 billion. See "Significant Acquisitions—2007—Purchase of Assets in Yukos Auctions."

Guarantees

In January 2007, the Company entered into a guarantee agreement with respect to all the obligations of Vankorneft under a letter of credit for the amount of U.S.\$ 62 million expiring 730 days after the date of issue of the letters of credit. Under the agreement, in case of occurrence of events making solvency of the Company doubtful, the bank can require to place money on deposit in amount sufficient for meeting all its current and future obligations till the letter of credit maturity. The Company evaluates the default risk of Vankorneft under the letter of credit as low.

In January 2007, RN-Yuganskneftegaz LLC entered into a guarantee agreement with respect to all the obligations of RN Energo LLC under an electricity supply agreement with OJSC Tyumenskaya Energosbytovaya Companiya through 31 January 2010, in the amount of approximately U.S.\$ 58 million.

Key Financial Ratios

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

	For the three months ended 31 March	
	2007	2006
EBITDA margin	21.6%	26.2%
Adjusted net income margin before minority interest	8.4%	11.5%
Net debt to capital employed ratio	0.40	0.53
Net debt to adjusted EBITDA ratio, annualised	2.11	1.45
Current ratio	0.86	0.66
	(U.S.\$)	
EBITDA/bbl	12.01	14.11
EBITDA/boe	10.37	12.24
Upstream capital expenditure/bbl	6.19	3.42
Upstream capital expenditure/boe	5.35	2.97
Upstream operating expenses/bbl	3.23	2.31
Upstream operating expenses/boe	2.79	2.01
Adjusted free cash flow before interest/bbl	0.34	7.44
Adjusted free cash flow before interest/boe	0.30	6.46

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

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

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

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

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

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

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

Upstream Measures

	For the three months ended 31 March	
	2007	2006
Upstream capital expenditures ⁽¹⁾ (U.S.\$ millions)	916	466
Upstream operating expenses (U.S.\$ millions)	478	315
Barrels of crude oil produced (millions)	147.92	136.11
Barrels of oil equivalent produced (millions)	171.34	156.84

(1) Does not include licence acquisition costs.

Calculation of Adjusted Free Cash Flow before Interest

	For the three months ended 31 March	
	2007	2006
	(U.S.\$ millions)	
Net cash provided by operating activities	894	1,413
Capital expenditures ⁽¹⁾	(1,033)	(590)
Free cash flow	(139)	823
Cash interest payments ⁽²⁾	190	190
Adjusted free cash flow before interest	51	1,013

(1) Does not include licence acquisition costs.

(2) Cash interest payments, whether capitalised or expensed, as reflected in the statement of cash flows.

Calculation of EBITDA Margin

	For the three months ended 31 March	
	2007	2006
	(U.S.\$ millions, except %)	
Net income	358	802
Minority interest in subsidiaries' earnings	1	43
Income tax expense	121	335
Total other (income)/expenses	280	348
Operating income	760	1,528
Interest accrued in relation to Yuganskneftegaz tax liabilities for 1999-2004	332	—
Accretion expense ⁽¹⁾	11	8
Depreciation, depletion and amortisation	673	384
Adjusted EBITDA	1,776	1,920
Total revenues	8,220	7,327
Adjusted EBITDA margin	21.6%	26.2%

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

Calculation of Adjusted Net Income Margin before Minority Interest

	For the three months ended 31 March	
	2007	2006
	(U.S.\$ millions, except %)	
Net income	358	802
Minority interest in subsidiaries' earnings	1	43
Interest accrued in relation to Yuganskneftegaz tax liabilities for 1999-2004	332	—
Adjusted net income before minority interest in subsidiaries' earnings	691	845
Sales revenues	8,220	7,327
Adjusted net income margin before minority interest in subsidiaries' earnings	8.4%	11.5%

Calculation of Capital Employed and Related Indicators

	For the three months ended 31 March	
	2007	2006
	(U.S.\$ millions)	
Short-term loans and current portion of long-term debt	7,954	3,925
Long-term debt	8,663	7,708
Cash and cash equivalents	(1,626)	(489)
Net debt	14,991	11,144
Shareholders' equity	22,233	8,235
Minority interest in subsidiaries' earnings	226	1,842
Equity	22,459	10,077
Capital employed	37,450	21,221
Average equity, including minority interest⁽¹⁾	22,280	9,685
Average capital employed	36,437	20,772

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

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