



ROSNEFT

OIL COMPANY

OPEN JOINT STOCK COMPANY

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2007 AND 2006**

*The following discussion of Rosneft's financial condition and results of operations is based on, and should be read in conjunction with, the Company's financial statements and the notes thereto for the periods ended 30 September 2007 and 2006 (the "**Interim Financial Statements**"). Such terms as "**Rosneft**," "**Company**" and "**Group**" in their different forms in this report mean OJSC Rosneft and its consolidated subsidiaries and affiliated companies. This report presents Rosneft's financial condition and results of operations on a consolidated basis. This report contains forward-looking statements that involve risks and uncertainties. Rosneft's actual results may differ materially from those discussed in such forward-looking statements as a result of various factors.*

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

Overview

Rosneft is a vertically integrated oil and gas company with upstream and downstream operations located principally in Russia. Rosneft is 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 barrels of oil equivalent ("**boe**"), including proved crude oil reserves of approximately 15.96 billion barrels (2.20 billion tonnes) and proved gas reserves of approximately 701.07 billion cubic metres ("**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.

In May 2007, Rosneft purchased additional reserves in Western and Eastern Siberia and in the Samara region as a result of auctions for the sale of certain exploration and production assets of OJSC Yukos ("**Yukos**") won by Rosneft's subsidiary Neft-Aktiv LLC ("**Neft-Aktiv**"). See "**—Significant Acquisitions—2007—Purchase of Yukos Assets.**" According to D&M, as of 31 December 2006, OJSC Samaraneftgaz ("**Samaraneftgaz**") had proved reserves of 0.88 billion boe, including 0.86 billion barrels of crude oil (0.12 billion tonnes) and 2.99 bcm of gas, and proved and probable reserves of 1.33 billion boe, including 1.31 billion barrels of crude oil (0.18 billion tonnes) and 4.18 bcm of gas.

According to D&M, as of 31 December 2006, OJSC Tomskneft ("**Tomskneft**") had proved reserves of 0.98 billion boe, including 0.89 billion barrels of crude oil (0.12 billion tonnes) and 14.91 bcm of gas, and proved and probable reserves of 1.53 billion boe, including 1.38 billion barrels of crude oil (0.18 billion tonnes) and 25.29 bcm of gas. On 26 December 2007, the Company sold 50% of Tomskneft to LLC Gazpromneftfinance ("**Gazpromneftfinance**"), a subsidiary of OJSC Gazprom neft ("**Gazprom neft**"). Rosneft will account for Tomskneft using the equity method going forward from the date of completion. In the third quarter of 2007 and in the nine months ended 30 September 2007, Tomskneft was fully consolidated into Rosneft's statement of income from the date of acquisition and was included within the assets held for sale and liabilities related to assets held for sale line items of Rosneft's balance sheet as of 30 September 2007.

In the third quarter of 2007 and in the nine months ended 30 September 2007, Rosneft produced 2,163.87 thousand barrels of crude oil per day (27.22 million tonnes per quarter) and 1,946.56 thousand barrels of crude oil per day (72.65 million tonnes for the nine months), respectively. Rosneft produced 3.90 bcm of gas and 11.63 bcm of gas in the third quarter of 2007 and in the nine months ended 30 September 2007, respectively. In the third quarter of 2007 and in the nine months ended 30 September 2007, Tomskneft produced 233.7 thousand barrels of crude oil per day (2.94 million tonnes per quarter) and 232.5 thousand barrels of crude oil per day (4.64 million tonnes for the nine months), respectively, and Samaraneftgaz produced 156.5 thousand barrels of crude oil per day (1.97 million tonnes per quarter) and 166.9 thousand barrels of crude oil per day (3.17 million tonnes for the nine months), respectively. In addition, in the third quarter of 2007 and in the nine months ended 30 September 2007, Tomskneft produced 0.35 bcm and 0.55 bcm of gas, respectively, Samaraneftgaz produced 0.06 bcm and 0.10 bcm of gas, respectively.

In the third quarter of 2007 and in the nine months ended 30 September 2007, Rosneft sold approximately 53% and approximately 59%, respectively, of the crude oil it produced or purchased from third parties to customers outside Russia, comprising both sales to the Commonwealth of Independent States ("**CIS**") and exports to international markets other than the CIS. Most of the remainder was refined in Russia at Rosneft's refineries, including OJSC Rosneft-Tuapse refinery ("**Tuapse refinery**") and OJSC Rosneft-Komsomolsk refinery ("**Komsomolsk refinery**"), and OJSC Angarsk Petrochemical Company ("**Angarsk refinery**"), OJSC Achinsk refinery ("**Achinsk refinery**"), OJSC Kuibyshev refinery ("**Kuibyshev refinery**"), OJSC NovoKuibyshev refinery ("**NovoKuibyshev refinery**") OJSC Syzran refinery ("**Syzran refinery**") and LLC Strezhevskoy refinery ("**Strezhevskoy mini-refinery**"), formerly controlled by Yukos which Rosneft acquired through its wholly owned subsidiary Neft-Aktiv in May 2007. See "**—Significant Acquisitions—2007—Purchase of Yukos Assets.**" Rosneft sells the petroleum products produced by these refineries in international and domestic markets. Rosneft has an integrated production, transportation, refining and marketing strategy and seeks to maximise netbacks by optimising its product mix, sales destinations and available transport routes.

Rosneft's total revenues increased to US\$ 13,742 million in the third quarter of 2007 from US\$ 8,951 million in the third quarter of 2006 and to US\$ 32,747 million in the nine months ended 30 September 2007

from US\$ 24,880 million in the nine months ended 30 September 2006. These increases resulted primarily from increases in sales volumes resulting mainly from the acquisition of Yukos assets in April-August 2007. Rosneft's total revenue excluding estimated revenue from subsidiaries recently acquired from Yukos comprised US\$ 10,620 million in third quarter of 2007 and US\$ 28,466 million in the nine month ended 30 September 2007. Rosneft's net income increased to US\$ 1,890 million in the third quarter of 2007 from US\$ 1,051 million in the third quarter of 2006 and to US\$ 9,910 million in the nine months ended 30 September 2007 from US\$ 2,930 million in the nine months ended 30 September 2006 as a result of increased production, improved margins and of the income arising from Yukos bankruptcy proceeds (net of income tax) of US\$ 6,019 million received by Rosneft in June 2007. Rosneft's net income before minority interest adjusted for Yukos bankruptcy proceeds and interest accrued in relation to OJSC Yuganskneftegaz ("Yuganskneftegaz") tax liabilities for 1999-2004 was US\$ 1,940 million in the third quarter of 2007 and US\$ 4,343 million in the nine months ended 30 September 2007.

Business Segments and Intersegment Sales

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

Business Segments

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

- *Exploration and production ("upstream")*. Geological exploration and development of fields, and crude oil and gas production; 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 production subsidiaries, part of which it sells in and outside Russia and the remainder of which it delivers to its proprietary or third-party refineries in Russia for processing. Petroleum products are then either sold by the holding company through wholesale sales 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 (the "**Share Swap**") (see "**—Development of Rosneft—Consolidation via Share Swap**" below), the Company became the producer and owner of the crude oil previously produced by the 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 16 to the Interim Financial Statements.

On 1 October 2006, twelve subsidiaries, Yuganskneftegaz, OJSC Purneftegaz ("**Purneftegaz**"), OJSC Selkupneftegaz, OJSC Severnaya Neft ("**Severnaya Neft**"), OJSC Krasnodarneftegaz ("**Krasnodarneftegaz**"), OJSC Stavropolneftegaz, OJSC Sakhalinmorneftegaz, Komsomolsk refinery, Tuapse refinery, OJSC Arkhangelsknefteprodukt, OJSC Nakhodkanefteprodukt and OJSC Tuapsenefteprodukt (the "**Merged Subsidiaries**") were merged into the Company by means of the Share

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

Significant Acquisitions

2007

Purchase of Yukos Assets

In April-August 2007, Rosneft acquired upstream, downstream and other assets of Yukos, Company shares and promissory notes of Yuganskneftegaz through auctions held in connection with Yukos’ bankruptcy proceedings. Rosneft also acquired in June-July 2007 further Yukos assets from the winners of other Yukos auctions. Rosneft paid approximately RUB 687.7 billion (US\$ 26.6 billion) in aggregate for the Yukos assets, Company shares and promissory notes of Yuganskneftegaz it acquired in the auctions and thereafter (including US\$ 7.65 billion for 9.44% of share in the Company and promissory notes of Yuganskneftegaz) and borrowed approximately US\$ 22.0 billion to help finance these acquisitions. Based on the preliminary allocation of the acquisition price in the acquisitions accounted for as business combination, which is subject to adjustment in subsequent periods, total goodwill in the amount of US\$ 5.3 billion is attributed primarily to the downstream segment (US\$ 3.7 billion), as well as to the upstream segment (US\$ 1.6 billion), both of which Rosneft expects will benefit from synergies resulting from the acquisitions.

Rosneft received approximately US\$ 9.8 billion (including proceeds received by subsidiaries recently acquired from Yukos) in June 2007 as a Yukos creditor, out of which US\$ 9.1 billion has been used as prepayment to reduce the US\$ 22.0 billion in Company borrowings referred to above as well as other borrowing. Rosneft received approximately US\$ 3.4 billion as an advance payment following the agreement to sell 50% of Tomskneft in late June 2007. The advance payment was used by Rosneft to help finance the acquisition of Yukos assets. The advance payment is included within the accounts payable in the Interim Financial Statements.

In October 2007, the Company received RUB 41.7 billion (US\$ 1.7 billion at the CBR exchange rate as of September 30, 2007) from the receiver as a result of Yukos Oil Company bankruptcy proceedings, of which RUB 25.9 billion (US\$ 1.1 billion at the CBR exchange rate as of September 30, 2007) will be recognized as income in the statement of income and comprehensive income, while the remaining part of RUB 15.8 billion (US\$ 633 million at the CBR exchange rate as of September 30, 2007, US\$ 612 million at the CBR rate as of the date of acquisition) represents a revision of the preliminary purchase price allocation.

In the nine months ended 30 September 2007, Tomskneft, as well as certain other Yukos companies purchased by Neft-Aktiv, were fully consolidated into Rosneft’s statement of income from the date of acquisition and were included within the assets held for sale and liabilities related to assets held for sale line items of Rosneft’s balance sheet as of 30 September 2007. On 26 December 2007, the Company sold 50% of Tomskneft and other related assets to Gazpromneftfinance, a subsidiary of Gazprom neft, for RUB 88.2 billion (US\$ 3.6 billion at the Central Bank of Russia (“**CBR**”) exchange rate in effect as at the transaction date). Rosneft will account for Tomskneft using the equity method going forward from the date of completion.

Right and Receivables

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

Transportation assets

On 8 August 2007, Rosneft won the auction for the sale of Yukos’ transportation assets. Rosneft purchased these assets for a total consideration of RUB 18.58 billion (US\$ 0.72 billion at the CBR exchange rate in effect as at the date of the payment).

Equipment and Geological Information

On 12 July 2007, Rosneft won the auction for the sale by Yukos of certain equipment and geological information relating to certain blocks currently licenced to Yukos in Khanty-Mansiysk and the Evenkiya, Samara and Tomsk regions. Rosneft purchased these assets for a total consideration of RUB 6.90 billion (US\$ 0.27 billion at the CBR exchange rate in effect as at the date of the payment).

Southern Russia Marketing and Power Generation Assets

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

Marketing and Management Assets

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

European Russia Downstream Assets

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

Upstream Service and IT Companies

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

Samara Upstream and Downstream Assets

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

Western and Eastern Siberia Upstream and Downstream Assets

On 3 May 2007, Neft-Aktiv won the auction for the sale of certain assets of Yukos. These assets comprise shares in various exploration and production and refining and marketing companies in Western and Eastern Siberia. Neft-Aktiv purchased these 37 assets for a total consideration of RUB 175.70 billion (US\$ 6.82 billion at the CBR exchange rate in effect as at the date of the payment). On 26 December 2007, the Company sold 50% of one of these assets, Tomskneft.

Yuganskneftegaz Service Companies

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

Treasury Stock

On 27 March 2007, RN-Razvitie LLC (“**RN-Razvitie**”), a wholly owned subsidiary of the Company, won the tender for the purchase of 9.44% of the share capital of the Company and promissory notes of Yuganskneftegaz having a face value of RUB 3,558 million (US\$ 138 million at the CBR exchange rate in effect as at the date of the payment) from Yukos for a total consideration of RUB 197.84 billion (US\$ 7.65 billion at the CBR exchange rate in effect as at the date of the payment). For the purposes of Rosneft’s consolidated financial statements, the total aggregate consideration for the acquired assets was allocated to the assets acquired on a pro rata basis to their respective fair values and amounted to RUB 194.05 billion for the Company’s shares, or RUB 194.05 per share (US\$ 7.52 billion, or US\$ 7.52 per share, at the CBR exchange rate in effect as at the date of the transaction). Title to the shares and promissory notes was transferred to RN-Razvitie on 17 April 2007.

Financing of the Purchases

In March 2007, the Company and its wholly owned subsidiary RN-Razvitie entered into loan agreements with a syndicate of international banks. The agreements provide for a US\$ 9.5 billion tranche that had a six-month term, a US\$ 6.0 billion tranche that has a 12-month term and a US\$ 6.5 billion tranche 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 US\$ 22.0 billion and was drawn down through May 2007.

In June 2007, Rosneft received approximately US\$ 9.8 billion (including proceeds received by subsidiaries recently acquired from Yukos) as a Yukos creditor, out of which US\$ 9.1 billion has been used as prepayment to reduce the US\$ 22.0 billion in Company borrowings referred to above as well as other borrowing. See “—Liquidity and Capital Resources—Debt Obligations.”

In late June 2007, Neft-Aktiv, a wholly owned subsidiary of the Company, agreed to sell 50% of Tomskneft to OJSC Vnesheconombank, received approximately US\$ 3.5 billion as an advance payment for the sale and procured all documents on Rosneft’s behalf for OJSC Vnesheconombank to receive the related Tomskneft shares. The transaction was not completed because OJSC Vnesheconombank did not receive the necessary corporate approvals. On December 2007, the Company sold 50% of Tomskneft and other related assets to Gazpromneftfinance, a subsidiary of Gazprom neft and a related party under common control with Rosneft. Rosneft will account for Tomskneft using the equity method going forward from the date of completion. The advance payment received by Rosneft was used to help finance the acquisition of Yukos assets. The advance payment is included within the accounts payable in the Interim Financial Statements.

Other Significant Acquisitions

Other Significant Acquisitions Prior to 30 September 2007

Fuelling Stations in the Moscow Region

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

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

Fuelling Stations in the Stavropol Region

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

Vlakra

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

Yukos-Mamontovo

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

Verkhnechonskneftegaz

In January 2007, the Company purchased 339,582 newly issued ordinary shares of OJSC Verkhnechonskneftegaz, an exploration and production company, for a total consideration of RUB 201 million (US\$ 8 million at the CBR exchange rate in effect as at the transaction date). In December 2007, the Company purchased 237,572 newly issued ordinary shares of OJSC Verkhnechonskneftegaz for a total consideration of RUB 285 million (US\$ 11.6 million at the CBR exchange rate in effect as at the transaction date). As a result, the Company maintained its 25.94% share in this company. The other shareholders of OJSC Verkhnechonskneftegaz are OJSC TNK-BP (“**TNK-BP**”) holding 68.36%, OJSC East Siberian Gas Company holding 5.64% and minority shareholders holding the remaining 0.06%.

Ohinskaya TETS

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

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

Truboprovodny Consortium Burgas-Alexandroupolis

In January 2007, the Company participated in the creation of a joint venture, LLC Truboprovodny Consortium Burgas-Alexandroupolis, with equal equity contributions from the Company, OJSC AK Transneft (“**Transneft**”) and OJSC Gazprom (“**Gazprom**”). This joint venture was registered with a share capital of RUB 9 million (US\$ 0.4 million at the CBR exchange rate in effect as at the registration date). The joint venture 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.

Other Significant Acquisitions After 30 September 2007

In October 2007, Anglo-Siberian Oil Company Limited (UK), a wholly owned subsidiary of the Company, purchased 100% of the shares of Total E&P Vankor Ltd. (“**Total E&P Vankor**”). In early 2007, Total E&P Vankor won an arbitration award against the Company. The arbitration award and related expenses of US\$ 134 million were accrued in 2006. See Note 25 to the Company’s audited consolidated financial statements as of 31 December 2006 and for the year ended 31 December 2006.

2006

Exponeft

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

Nefteport

In October 2006, the Company purchased 97.51% of the shares of Nakhodka Oil Seatrade Port (“**Nefteport**”) for RUB 528 million (US\$ 19.5 million at the CBR exchange rate in effect as at the settlement date). The acquisition created US\$ 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 TNK-

BP or an affiliate. In June 2006, TNK-BP announced its decision to sell 96.86% of Udmurtneft's shares to Sinopec. Sinopec completed the purchase of Udmurtneft on 10 August 2006 from an affiliate of TNK-BP. In July 2006, Sinopec created Taihu Ltd. ("**Taihu**"), of which the Company owns 51% since November 2006 through its wholly owned subsidiary, Rosneft International Ltd., and Sinopec owns 49% through its wholly owned subsidiary, Sinopec Overseas Oil and Gas Ltd. CJSC Promleasing ("**Promleasing**"), a wholly owned subsidiary of Taihu, purchased 96.86% of Udmurtneft's shares in December 2006 from Sinopec. Pursuant to a shareholder agreement entered into between the Company and Sinopec with respect to Taihu, key decisions regarding its business shall be subject to the unanimous approval by both participants and neither of the participants has a preferential voting right. As a result, the Company accounted for this investment using the equity method from December 2006. On 13 November 2006, Bank of China provided a credit facility to Taihu in the amount of up to US\$ 3.72 billion for financing the purchase of the 96.86% stake in Udmurtneft and the additional 3.14% shares from minority shareholders of Udmurtneft. As a result of a mandatory offer to minority shareholders of Udmurtneft in April 2007, Promleasing increased its stake in Udmurtneft to 96.95%. 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 US\$ 1,339 million (including accumulated interest) to Videsh with respect to the Company's costs carried by Videsh in previous years. Following this repayment, the Company recovered the right to receive its *pro rata* income in the Sakhalin-1 project. Rosneft accounts for this investment using the proportionate consolidation method. Of the total amount repaid, US\$ 1,328 million was recorded as an addition to oil and gas property as of 31 December 2006 and effectively treated as capital expenditures.

Development of Rosneft

Increased Stakes in Subsidiaries

2006

VBRR

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

Daltransgaz

In February 2006, the Company purchased 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 (US\$ 26 million at the CBR exchange rate in effect as at the settlement date), thus maintaining its share at 25% plus one share.

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

Tuapsenefteprodukt

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

Corporate Restructuring

RN-Burenie

In March 2006, the Company created LLC RN-Burenie (“**RN-Burenie**”) following the Board of Directors’ decision to optimise the Company’s service arrangements. During the second quarter of 2006, drilling and other supporting assets were transferred from upstream subsidiaries to RN-Burenie. In the 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 US\$ 9,218 million. The excess of the fair value of the shares issued over the fair value of minority interests purchased in the amount of US\$ 69 million has been reflected as goodwill and relates to the refining 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 of crude oil and gas.

2007

Preobrazhenskiy block

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

Zapadno-Chonsky and Verhneichersky block

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

Sovetsky and Biryukovsky Blocks

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

2006

Kulindinsky Block

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

North Charsky Block

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

Osoveysky Block

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

Danilovsky Block

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

Mogdinsky and Sanarsky Blocks

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

East Sugdinsky Block

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

Tukolandsky, Vadinsky and 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 (US\$ 199 million at the CBR exchange rate in effect as at the payment date). These blocks are located in close proximity to the Vankorskoye field, which Rosneft started to develop in 2003. Consequently, they will be able to share certain infrastructure with the Vankorskoye field, thereby reducing development costs should commercial volumes of hydrocarbons be discovered. The licences were granted in May 2006 and expire in April 2031.

Memorandum of Understanding with Sibur

On 25 June 2007, Rosneft entered into a memorandum of understanding with OJSC Sibur on the processing, marketing and sale of associated gas. The memorandum provides for the establishment of a joint

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

Shareholder and Operating Agreement with Sinopec on Sakhalin-3

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

Shareholder and Operating Agreement with KKC on West Kamchatka

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

Strategic Partnership Agreement with Gazprom

On 28 November 2006, the Company and Gazprom entered into 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 deposits, except projects with third-party participation. Pursuant to the Strategic Partnership Agreement, Gazprom will purchase from Rosneft natural gas of no less than Rosneft actual gas sales volume in 2006, which was 9.57 bcm, and in excess of rn's actual gas production at the western Siberia fields connected to the UGSS over the levels of rn's production from such fields in 2006, which was 8.45 bcm. The Strategic Partnership Agreement is effective until the end of 2015.

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

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

Agreements on the Establishment of Joint Ventures

On 21 March 2006, the Company and CNPC entered into an agreement for the establishment of joint ventures in Russia and China for cooperation in the crude oil sector. The agreement contemplates the

establishment of a joint venture for crude oil refining and distribution of petroleum products in China and a joint venture for exploration and production of crude oil and gas in Russia.

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

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

Main Factors Affecting Results of Operations

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

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

Changes in prices, export customs duty and transport tariffs can have a significant impact on the mix of products and export routes the Company selects, as it seeks to maximise netback prices for the crude oil it produces. Rosneft’s net income has been significantly affected by increases in crude oil, petroleum products and gas prices in the three and nine months ended 30 September 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 30 September		% change	For the nine months ended 30 September		% change
	2007	2006		2007	2006	
World market	(US\$ per barrel)		(%)	(US\$ per barrel)		(%)
Brent	74.87	69.49	9.2%	67.13	66.96	0.8%
Urals (average Med+NWE)	72.19	65.76	10.0%	63.88	62.92	1.6%
Dubai-Oman	70.37	66.49	(2.3)%	63.64	63.46	(5)%
	(US\$ per tonne)			(US\$ per tonne)		
Premium gasoline (High octane) (average NWE)	715.25	683.87	4.6%	674.01	656.02	2.7%
Regular gasoline (Low octane) (average NEW)	700.88	662.77	5.8%	662.21	642.45	3.1%
Naphtha (average Med)	661.80	578.00	14.5%	614.44	560.00	9.7%
Fuel oil (average Med)	365.14	297.00	22.9%	313.51	296.35	5.9%
Jet fuel (kerosene)(average Med)	716.13	692.35	3.4%	658.72	662.00	(0.5)%
Gasoil fuel (average Med)	667.43	619.00	8.2%	602.49	599.00	0.7%
Russian market⁽¹⁾	(US\$ per tonne)			(US\$ per tonne)		
Crude oil	302.31	281.00	8.4%	262.56	272.00	(3.2)%
Fuel oil	244.09	225.00	8.5%	193.09	216.00	(10.6)%
Diesel fuel	582.56	610.00	(4.5)%	550.15	558.00	(1.4)%
High octane gasoline	872.76	809.00	7.9%	803.14	694.00	15.7%
Low octane gasoline	697.51	647.00	7.8%	634.39	567.00	11.9%

Sources: *Platts* (world market), *Kortes* (Russian market).
(1) Market prices are including VAT of 18% and relevant excise tax.

Rosneft's gas sales have been limited to date, but the Company's strategy anticipates a significant increase in its gas business. Gazprom controls access to the UGSS, and is the predominant supplier of gas in Russia and the only exporter of gas produced in Russia. Rosneft sells the gas it produces to Gazprom from time to time and is currently in the process of negotiating a long-term agreement to secure Rosneft's access to the UGSS for gas sales to third parties and to sell additional gas to Gazprom, consistent with the Strategic Partnership Agreement entered into between the Company and Gazprom on 28 November 2006. See "— Strategic Partnership Agreement with Gazprom." The Russian government regulates the prices for the gas Gazprom sells in Russia. While the regulated price has been rising in Russia, and is expected to continue to rise to a level closer to parity with export netbacks, it is currently still significantly below world prices levels. The regulated price has affected, and is likely to continue to affect, the pricing of the gas Rosneft sells to Gazprom from time to time or pursuant to the contract it is negotiating. Rosneft's average gas sale price was RUB 764 (US\$ 29.95) per thousand cubic meters and RUB 550 (US\$ 21.58) per thousand cubic meters in the third quarters of 2007 and 2006, respectively, and it was RUB 745 (US\$ 28.80) per thousand cubic meters and RUB 532 (US\$ 20.89) per thousand cubic meters in the nine months ended 30 September 2007 and 2006, respectively. These prices were affected by the appreciation of the rouble over the US dollar.

RUB/US\$ Exchange Rate Movements and Inflation

The rouble-US dollar exchange rate and inflation trends in the Russian Federation affect Rosneft's results of operations since most of Rosneft's revenues from sales of crude oil and petroleum products are denominated in US dollars, while a substantial portion of its expenses are denominated in Russian roubles. Accordingly, any real appreciation of the rouble versus the US dollar negatively affects Rosneft's margins. The rouble has appreciated against the US dollar in real 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 US dollar.

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2007	2006	2007	2006
Rouble inflation (CPI) for the specified period ⁽¹⁾	1.2%	1.0%	7.0%	7.2%
Rouble/US dollar exchange rate at the beginning of the period ⁽¹⁾	25.82	27.08	26.33	28.78
Rouble/US dollar exchange rate at the end of the period ⁽¹⁾	24.95	26.78	24.95	26.78
Average rouble/US dollar exchange rate during the period ⁽¹⁾	25.51	26.81	25.89	27.39
Nominal appreciation/(depreciation) of the rouble against the US dollar, as calculated by Rosneft for the specified period ⁽²⁾	3.2%	1.1%	5.3%	7.0%
Real appreciation/(depreciation) of the rouble against the US dollar, as calculated by Rosneft for the specified period ⁽³⁾	4.5%	2.1%	12.6%	14.7%
Real appreciation/(depreciation) of the rouble against the US dollar for the specified period ⁽¹⁾	4.3%	1.4%	11.8%	11.4%
Real appreciation of the rouble against the US dollar, as calculated by Rosneft, for the same period of the previous year	16.2%	15.8%	16.2%	15.8%

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

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

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

Changes in Mineral Production Tax and Export Customs Duty

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

	For the three months ended 30 September		% change	For the nine months ended 30 September		% change
	2007	2006		2007	2006	
Mineral production tax			(%)			(%)
Crude oil (RUB per tonne)	2,598	2,443	6.3%	2,280	2,371	(3.8)%
Crude oil (US\$ per barrel)	13.92	12.46	11.7%	12.04	11.83	1.8%
Gas (RUB per thousand cubic meters)	147	147	0.0%	147	147	0.0%
Export customs duty						
Crude oil (US\$ per tonne)	216.13	210.87	2.4%	189.10	189.60	(1.0)%
Crude oil (US\$ per barrel)	29.55	28.83	2.5%	25.85	25.92	(0.3)%
Light and medium distilled products (US\$ per tonne)	157.97	150.63	4.6%	139.73	138.34	1.4%
Fuel oil (US\$ per tonne)	85.07	81.20	4.9%	75.30	74.54	1.0%

Mineral Production Tax

The rate of mineral production tax for crude oil in the nine months ended 30 September 2007 and 2006 was calculated by multiplying the base rate per tonne of crude oil produced by the adjustment ratio equal to $(P - 9) * R_t / 261$, where "P" is the average Urals price per barrel during the previous month, and "R_t" is the average rouble/US dollar exchange rate established by the CBR during the previous month. The base rate was RUB 419 in the third quarter of 2007 and 2006 and in the nine months ended 30 September 2007 and 2006.

In the third quarter of 2007, the rate of mineral production tax for crude oil increased by 6.3%, primarily due to an increase in average crude oil prices by 10% and decrease in the average rouble/US dollar exchange rate by approximately 4.3% in the three months ended 30 September 2007 as compared with the three months ended 30 September 2006.

In the nine months ended 30 September 2007, the rate of mineral production tax for crude oil decreased by 3.8%, primarily due to a decrease in the average rouble/US dollar exchange rate by approximately 3.9% in the nine months ended 30 September 2007 as compared with the nine months ended 30 September

2006. This decrease was offset in part by a slight increase in crude oil prices by 1.6% in the first nine months of 2007 compared to the first nine months of 2006.

Mineral production tax was US\$ 13.30 per barrel of crude oil produced and US\$ 11.89 per barrel of oil equivalent produced in the third quarter of 2007 and US\$ 11.92 per barrel of crude oil produced and US\$ 10.34 per barrel of oil equivalent produced, respectively, in the third quarter of 2006.

Mineral production tax was US\$ 12.04 per barrel of crude oil produced and US\$ 10.62 per barrel of oil equivalent produced for the nine months ended 30 September 2007 and US\$ 11.54 per barrel of crude oil produced and US\$ 10.13 per barrel of oil equivalent produced in the nine months ended 30 September 2006.

The rate of mineral production tax for gas has been flat and was RUB 147 per thousand cubic meters of gas produced in the third quarter of 2007 and in the nine months ended 30 September 2007, unchanged compared to the third quarter of 2006 and in the nine months ended 30 September 2006.

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

- Certain mineral production tax-free periods for “greenfield” crude oil projects in the Republic of Sakha (Yakutya), the Irkutsk region and the Krasnoyarsk territory for up to 10 years for new production licences and 15 years for new combined exploration and production licences or up to 25 million tonnes of crude oil per licence during the tax-free period without paying mineral production tax.
- Certain mineral production tax-free periods for crude oil losses within normative limits, approved for the previous years, if 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 under reservoir conditions) where the direct method of accounting for produced oil is used.

Rosneft expects to benefit from this legislation as the Group has extensive “greenfield” interests in Eastern Siberia and has material “brownfield” interests that are 80-99% depleted.

Export Customs Duty

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

The table below sets forth the calculation of export customs duty in the third quarter of 2007 and 2006 and in the nine months ended 30 September 2007 and 2006:

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

The average Urals prices increased to US\$ 72.2 per barrel in the third quarter of 2007 from US\$ 65.8 per barrel in the third quarter of 2006, in line with the growth of the rate of export customs duty for crude oil to US\$ 216.1 per tonne (US\$ 29.55 per barrel) in the third quarter of 2007 from US\$ 210.9 per tonne (US\$ 28.83 per barrel) in the third quarter of 2006. The Russian government sets 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 crude oil sales was US\$ 28.3 per barrel of crude oil in the third quarter of 2007, excluding the effect of export customs duty on sales to Belarus, which is significantly lower than standard export customs duty, and US\$ 28.8 per barrel of crude oil exported in the third quarter of 2006.

While the average Urals prices increased to US\$ 63.9 per barrel for the nine months ended 30 September 2007 from US\$ 62.9 per barrel for the nine months ended 30 September 2006, the rate of export customs duty for crude oil slightly decreased to US\$ 189.1 per tonne (US\$ 25.8 per barrel) of crude oil for the nine months ended 30 September 2007 from US\$ 189.6 per tonne (US\$ 25.9 per barrel) for the nine months ended 30 September 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 US\$ 24.5 per barrel of crude oil exported in the nine months ended 30 September 2007, excluding the effect of export customs duty on sales to Belarus, which is significantly lower than standard export customs duty, and US\$ 26.2 per barrel of crude oil exported in the nine months ended 30 September 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 crude oil exports to Belarus as specified. Crude oil sales to countries that are exempt from paying export customs duty were US\$ 199 million (5.28 million barrels) in the nine months ended 30 September 2007 and US\$ 1,253 million (33.14 million barrels) in the nine months ended 30 September 2006.

Changes in Transport Tariffs

Rosneft transports most of its crude oil through the pipeline network owned and operated by Transneft, a state-owned oil pipeline monopoly engaged in the transportation of crude oil in Russia and abroad. The 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 12.4% on average in the third quarter of 2007 in US dollar terms compared to the third quarter of 2006. Rosneft's crude oil tariff per tonne of crude oil transported via Transneft increased by 12.3% on average in the nine months ended 30 September 2007 in US dollar terms compared to the nine months ended 30 September 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 third quarter of 2007 and 2006, Rosneft exported approximately 14.4% and 11.2%, 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. Rosneft exported approximately 12.5% of its petroleum products in the first nine months of 2007 and approximately 11.6% in the first nine months of 2006 through Transnefteprodukt pipeline system. 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, Kuibyshev, NovoKuibyshev and Syzran refineries, under processing contracts prior to their acquisition by Rosneft in May 2007. Rosneft's petroleum products tariff per tonne of petroleum products transported via Transnefteprodukt increased by 214.4% in the third quarter of 2007 compared to the third quarter of 2006 due to the use of new logistical schemes and transportation routes (Ventspils and Bryansk-Ventspils) to accommodate the larger volume of Rosneft's petroleum products sales and due to rouble appreciation. Rosneft's petroleum products tariff per tonne of petroleum products transported via Transnefteprodukt increased by 230.6% in the nine months ended 30 September 2007 compared to the nine months ended 30 September 2006, due to the use of new logistical schemes and transportation routes (Ventspils and Bryansk-Ventspils) to accommodate the larger volume of Rosneft's petroleum products sales and due to rouble appreciation.

Rosneft also depends on railway transportation, which accounted for 29.3% of its export sales of crude oil in the third quarter of 2007, including railway used in a combination of transportation means, compared to

33.3% in the third quarter of 2006, and for approximately 42.1% of its export sales of petroleum products in the third quarter of 2007 compared to 40.8% in the third quarter of 2006. In the nine months ended 30 September 2007, railway transportation accounted for 29.9% of the Company's export sales of crude oil, compared to 31.8% in the nine months ended 30 September 2006, and for approximately 48.1% of the Company's export sales of petroleum products, compared to 50.8% in the nine months ended 30 September 2006. The decrease in the railway transportation of export sales of petroleum products in the nine months ended 30 September 2007 resulted from use of new logistical schemes and pipeline transportation routes (Ventspils and Bryansk-Ventpils), as described above. 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 6.4% in the third quarter of 2007 in US dollar terms and increased by 6.4% in the nine months ended 30 September 2007 in US dollar terms, generally due to more distant deliveries to China, partially offset by a discount on railway transportation to China effective from the beginning of 2007. RZD's tariffs are subject to control by FTS and to antimonopoly regulations.

Recent Acquisitions of Upstream, Downstream and Other Assets from Yukos

Rosneft's acquisitions of upstream, downstream and other assets from Yukos in April-August 2007 had in the nine months ended 30 September 2007 and are expected to have in the future a substantial impact on the Company's results of operations. See "—Significant Acquisitions—2007—Purchase of Yukos Assets." While it is too early to gauge the full extent of this impact, Rosneft has identified five factors that it currently expects will influence its results. These include:

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

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

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

Production of Crude Oil, Petroleum Products and Gas

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

Production of Crude Oil

Rosneft produces crude oil at seven production Business Units and six fully consolidated production and development subsidiaries, including Tomskneft and Samaraneftgaz, which Rosneft acquired in May 2007. The Company also has a 20% share in the Sakhalin-1 project consolidated into Rosneft under the proportionate consolidation method in which Rosneft recovered the right to receive its *pro rata* income following the repayment of the carried interest to Videsh starting from 31 July 2006. See "—Significant Acquisitions—2006—Repayment of Carried Interest in Sakhalin-1 Joint Venture." In addition, Rosneft produces oil at three production joint ventures, which Rosneft accounts for using the equity method. Yuganskneftgaz, Purneftgaz in Western Siberia and Severnaya Neft in Timano-Pechora are Rosneft's most important production and development Business Units, collectively accounting for 81.6% in the third quarter of 2007 and for 83.7% in the nine months ended 30 September 2007. Yuganskneftgaz accounted for 64.1% and 65.3%, Purneftgaz for 9.7% and 10.3% and Severnaya Neft for 5.9% and 6.2% of Rosneft's production in the third quarter of 2007 and in the nine months ended 30 September 2007, respectively.

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

	For the three months ended 30 September		% change (%)	For the nine months ended 30 September		% change (%)
	2007 (millions of barrels)	2006		2007 (millions of barrels)	2006	
Crude oil production by Business Units and fully and proportionately consolidated subsidiaries ⁽¹⁾	192.35	148.88	29.2%	511.62	427.67	19.6%
Crude oil production, as above, plus the share in production of joint ventures ⁽²⁾	199.08	150.12	32.6%	531.41	431.23	23.2%

(1) Crude oil production by Business Units and subsidiaries includes Rosneft's net share of oil produced under the Sakhalin-1 PSA net of 8% royalty of 0.32 million barrels in the third quarter of 2007 and of 0.66 million barrels in the nine months ended 30 September 2007, and net of 2.07% Russian government share of 0.08 million barrels in the third quarter of 2007 and of 0.17 million barrels in the nine months ended 30 September 2007.

(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 LLC Polar Lights ("Polar Lights") and LLC Aday Petroleum Company ("Aday Petroleum") joint venture in Kazakhstan and 49.4% share in crude oil produced by Udmurtneft.

Rosneft increased its production of crude oil, excluding production by Tomskneft and Samaraneftgaz, by 5.1%, to 156.46 million barrels in the third quarter of 2007 from 148.88 million barrels in the third quarter of 2006. Rosneft's crude oil production grew as a result of increased production by Yuganskneftgaz and of the Company's 20% share in the production of crude oil at Sakhalin-1. Production by Yuganskneftgaz increased to 113.05 million barrels in the third quarter of 2007 from 106.69 million barrels in the third quarter of 2006, or by 6.0%. The Company's net *pro rata* share of oil produced under the Sakhalin-1 PSA was 3.61 million barrels in the third quarter of 2007.

In the nine months ended 30 September 2007, Rosneft increased its production of crude oil, excluding production by Tomskneft and Samaraneftgaz, by 6.3%, to 454.47 million barrels compared with 427.67 million barrels in the nine months ended 30 September 2006. Rosneft's crude oil production grew as a result of increased production by Yuganskneftgaz and to the Company's 20% share in the production of crude oil at Sakhalin-1. Production by Yuganskneftgaz increased from 303.15 million barrels in the nine months ended 30 September 2006, to 323.49 million barrels in the nine months ended 30 September 2007, or by 6.7%. The Company's net *pro rata* share of oil produced under the Sakhalin-1 PSA was 10.95 million barrels for the nine months ended 30 September 2007.

Tomskneft and Samaraneftgaz, which Rosneft acquired in May 2007 and which are fully consolidated from the date of acquisition, collectively contributed 57.15 million barrels to Rosneft's crude oil production from the day of their acquisition in May 2007 to 30 September 2007, including 33.95 million barrels produced by Tomskneft and 23.20 million barrels produced by Samaraneftgaz. Tomskneft and Samaraneftgaz increased Rosneft's crude oil production by 29.2% to 192.35 million barrels in the third quarter of 2007 and by 19.6% to 511.62 million barrels in the nine months ended 30 September 2007.

Daily crude oil production in the third quarter of 2007, excluding production by Tomskneft and Samaraneftgaz, was 1,700.61 thousand barrels as compared with 1,618.26 thousand barrels in the third quarter of 2006. This growth was largely attributable to the drilling of new production wells (198 in the third

quarter of 2007 and 111 in the third quarter of 2006) and the rise in average well production rates in the Company's most significant production Business Units and subsidiaries to 119.13 barrels per day in the third quarter of 2007 from 112.84 barrels per day in the third quarter of 2006.

Daily crude oil production in the nine months ended 30 September 2007, excluding production by Tomskneft and Samaraneftgaz, was 1,664.72 thousand barrels as compared with 1,566.54 thousand barrels for the nine months ended 30 September 2006. This growth was largely attributable to the drilling of new production wells (336 in the nine months ended 30 September 2007 and 186 in the nine months ended 30 September 2006) and the rise in average well production rates in the Company's most significant production Business Units and subsidiaries to 112.50 barrels per day in the nine months ended 30 September 2007 from 109.73 barrels per day in the nine months ended 30 September 2006.

Daily crude oil production of Tomskneft and Samaraneftgaz, which Rosneft acquired in May 2007 collectively contributed 399.43 thousand barrels of daily crude oil from the day of their acquisition in May 2007 to 30 September 2007, including 232.53 thousand barrels per day for Tomskneft and 166.90 thousand barrels per day for Samaraneftgaz.

Production of Gas

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

	For the three months ended 30 September		% change (%)	For the nine months ended 30 September		% change (%)
	2007 (bcm)	2006		2007 (bcm)	2006	
Gas production by Business Units and fully and proportionately consolidated subsidiaries ⁽¹⁾	3.89	3.35	15.9%	11.60	10.13	14.6%
Gas production, as above, plus the share in production of joint ventures ⁽²⁾	3.90	3.36	16.1%	11.63	10.13	14.8%

(1) Gas production by Business Units and subsidiaries includes Rosneft's share of gas produced under the Sakhalin-1 PSA net of 8% royalty of 2.26 million cubic metres ("mmcm") in the third quarter of 2007 and of 11.36 mmcm in the nine months ended 30 September 2007, and net of 2.07% Russian government share of 0.58 mmcm in the third quarter of 2007 and of 2.94 mmcm in the nine months ended 30 September 2007.

(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 Udmurtneft.

Rosneft's gas production, excluding production by Tomskneft and Samaraneftgaz, increased by 13.2% to 3.25 bcm in the third quarter of 2007, primarily due to the growth of production in Krasnodarneftgaz Business Unit, OJSC Grozneftgaz and Severnaya Neft and Purneftgaz Business Units.

Rosneft's gas production, excluding production by Tomskneft and Samaraneftgaz, increased by 8.22% to 10.95 bcm in the nine months ended 30 September 2007, due to the growth of production in the fields of Krasnodarneftgaz and Purneftgaz Business Units. The level of associated gas utilisation was 59.3% in the nine months ended 30 September 2007 compared to 58.5% in the nine months ended 30 September 2006.

Tomskneft and Samaraneftgaz, which Rosneft acquired in May 2007 and which are fully consolidated from the day of their acquisition, collectively contributed 0.65 bcm to Rosneft's gas production from the day of their acquisition in May 2007 to 30 September 2007, including 0.55 bcm produced by Tomskneft and 0.10 bcm produced by Samaraneftgaz. Tomskneft and Samaraneftgaz increased Rosneft's gas production by 15.9% to 3.89 bcm in the third quarter of 2007 and by 14.6% to 11.60 bcm in the nine months ended 30 September 2007.

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

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

Production of Petroleum Products

Rosneft refines the crude oil it produces at its refineries, including at the Tuapse refinery on the Black Sea in the South of Russia and the Komsomolsk refinery in the Russian Far East the Achinsk and Angarsk

refineries and the Strezhevskoy mini-refinery in Eastern Siberia and the Kuibyshev, NovoKuibyshev and Syzran refineries in the Samara region. Rosneft previously arranged for the crude oil it produces to be processed under processing contracts at refineries formerly controlled by Yukos, the Achinsk, Angarsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery, which Rosneft acquired in May 2007. See “—Significant Acquisitions—2007—Purchase of Yukos Assets.” On 28 December 2007, the Company sold 100% of the Strezhevskoy mini-refinery to Tomskneft.

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 30 September		% change	For the nine months ended 30 September		% change
	2007	2006		2007	2006	
	(millions of tonnes)		(%)	(millions of tonnes)		(%)
Petroleum products output by the Komsomolsk and Tuapse refineries and mini-refineries ⁽³⁾	3.08	2.74	12.4%	9.04	7.90	14.4%
Petroleum products output by the Achinsk, Angarsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery ⁽¹⁾	8.85	2.96	199.0%	17.28 ⁽²⁾	8.97	92.6%
Total	11.93	5.70	109.3%	26.32	16.87	56.0%

- (1) Acquired by Rosneft in May 2007 as a result of auctions for the sale of certain Yukos assets. These refineries processed Rosneft-produced crude oil under processing contracts prior to their acquisition.
- (2) Including 11.63 million tonnes of petroleum products produced by the former Yukos refineries from the day of their acquisition by Rosneft in May 2007 to 30 September 2007.
- (3) Mini-refineries include Purovskiy, Usinskiy and Kabardino-Balkarskiy mini-refinery.

The total output of petroleum products from Rosneft-produced crude oil, including output of mini-refineries and the Achinsk, Angarsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery purchased by Rosneft in May 2007, increased by 109.3%, to 11.93 million tonnes in the third quarter of 2007 from 5.70 million tonnes in the third quarter of 2006. This increase was due to the growth in refining at Rosneft’s refineries and growth in crude oil production following the purchase of Tomskneft and Samaraneftgaz.

In the third quarter of 2007, the Tuapse and Komsomolsk refineries processed 23.03 million barrels (3.15 million tonnes) of Rosneft-produced crude oil, 12.5% more than in the third quarter of 2006. The depth of refining by the Komsomolsk refinery increased to 60.3% in the third quarter of 2007 from 60.0% in the third quarter of 2006, and decreased by the Tuapse refinery to 55.9% for the third quarter of 2007 from 57.3% for the third quarter of 2006, yielding an aggregate of 3.08 million tonnes of petroleum products for the third quarter of 2007. The decrease in the depth of refining was due to changes in crude oil quality and in the product mix.

In the third quarter of 2007, 67.96 million barrels (9.29 million tonnes) of Rosneft-produced crude oil were processed at the Achinsk, Angarsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery which Rosneft purchased during the May 2007 auctions. The depth of refining ranged from 78.2% by the Angarsk refinery to 61.3% by the Kuibyshev refinery, yielding an aggregate of 8.85 million tonnes of petroleum products in the third quarter of 2007.

The total output of petroleum products from Rosneft-produced crude oil, including output of mini-refineries and the Achinsk, Angarsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery purchased by Rosneft in May 2007, increased by 56.0%, to 26.32 million tonnes in the nine months ended 30 September 2007 from 16.87 million tonnes in the nine months ended 30 September 2006. This increase was due to the growth in refining at Rosneft’s refineries and growth in crude oil production following the purchase of Tomskneft and Samaraneftgaz.

In the nine months ended 30 September 2007, the Tuapse and Komsomolsk refineries and mini-refineries processed 68.57 million barrels (9.37 million tonnes) of Rosneft-produced crude oil, 13.6% more than in the nine months ended 30 September 2006. The depth of refining by the Komsomolsk refinery decreased to 60.1% in the nine months ended 30 September 2007 from 60.5% in the nine months ended 30 September 2006, and by the Tuapse refinery to 56.0% for the nine months ended 30 September 2007 from 56.2% for the nine months ended 30 September 2006, yielding an aggregate of 9.04 million tonnes of petroleum products for the nine months ended 30 September 2007. The decrease in the depth of refining was due to changes in crude oil quality and in the product mix.

In the nine months ended 30 September 2007, 134.28 million barrels (18.36 million tonnes) of Rosneft-produced crude oil were processed at the Achinsk, Angarsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery which Rosneft purchased during the May 2007 auctions. The depth of refining ranged from 61.1% by the Kuibyshev refinery to 78.5% by the NovoKuibyshev refinery from the date of acquisition of these refineries to 30 September 2007, yielding an aggregate of 17.28 million tonnes of petroleum products in the nine months ended 30 September 2007.

In the nine months ended 30 September 2006 and 2007, the Tuapse and Komsomolsk refineries did not refine any crude oil produced by third parties. From their acquisition by Rosneft in May 2007 to 30 September 2007, the Achinsk, Angarsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery refined in aggregate 0.40 million tonnes of crude oil produced by third parties.

Both the Tuapse refinery and the Komsomolsk refinery have been operating at near full capacity during the periods being analysed. The Achinsk, Angarsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery have been operating at near full capacity from their acquisition by Rosneft in May 2007 to 30 September 2007.

Results of Operations

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

	For the three months ended 30 September		2006		% change	For the nine months ended 30 September		2006		% change
	2007	% of total revenue	2006	% of total revenue		2007	% of total revenue	2006	% of total revenue	
	(US\$ millions, except %)	(%)	(US\$ millions, except %)	(%)	(US\$ millions, except %)	(%)	(US\$ millions, except %)	(%)		
Revenues										
Oil and gas sales	7,562	55.0%	6,382	71.2%	18.4%	20,409	62.3%	17,535	70.5%	16.4%
Petroleum products and processing fees	5,865	42.7%	2,443	27.3%	140.1%	11,737	35.8%	7,069	28.4%	66.0%
Support services and other revenues	315	2.2%	126	1.4%	150.0%	601	1.8%	276	1.1%	117.8%
Total revenues	13,742	100.0%	8,951	100.0%	53.5%	32,747	100.0%	24,880	100.0%	31.6%
Cost and expenses										
Production and operating expenses	1,329	(9.6)%	500	(5.6)%	165.8%	2,605	(7.9)%	1,487	(5.9)%	75.2%
Cost of purchased oil, gas, petroleum products and refining costs	326	(2.4)%	253	(2.8)%	28.8%	1,203	(3.7)%	835	(3.4)%	44.1%
General and administrative expenses	383	(2.8)%	228	(2.5)%	71.5%	843	(2.5)%	548	(2.2)%	53.8%
Pipeline tariffs and transportation costs	1,166	(8.5)%	899	(10.0)%	29.7%	3,069	(9.4)%	2,359	(9.5)%	30.1%
Exploration expenses	23	(0.2)%	38	(0.4)%	39.4%	82	(0.3)%	116	(0.5)%	(29.3)%
Depreciation, depletion and amortisation	901	(6.6)%	444	(5.0)%	102.3%	2,424	(7.4)%	1,236	(5.0)%	96.1%
Accretion expense	19	(0.1)%	9	(0.1)%	111.1%	42	(0.1)%	25	(0.1)%	72.0%
Taxes other than income tax	2,987	(21.7)%	1,885	(21.1)%	58.4%	7,222	(22.0)%	5,391	(21.7)%	33.9%
Export customs duty	3,505	(25.5)%	2,947	(33.0)%	18.9%	8,697	(26.6)%	7,740	(31.1)%	12.4%
Total cost and expenses	10,639	(77.5)%	7,203	(80.4)%	47.7%	26,187	(80.0)%	19,737	(79.3)%	32.7%
Operating income	3,103	22.4%	1,748	19.5%	77.5%	6,560	20.0%	5,143	20.7%	27.5%
Other income/(expenses)										
Interest income	77	0.6%	42	0.5%	83.3%	155	0.5%	102	0.4%	52.0%
Interest expense	(422)	(3.1)%	(191)	(2.1)%	120.9%	(1,067)	(3.3)%	(572)	(2.3)%	86.5%
Loss on disposal of property, plant and equipment	(49)	(0.4)%	(8)	(0.1)%	512.5%	(83)	(0.3)%	(25)	(0.1)%	232.0%
Loss on disposal of investments	(13)	0.01%	(1)	(0.0)%	12,000%	(1)	0.0%	(6)	0.0%	(83.0)%
Gain from Yukos bankruptcy	-	-	-	-	-	7,920	24.2%	-	-	-

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Equity share in affiliates' profits	6	0.1%	13	0.1%	(53.8)%	5	0.0%	32	0.1%	(84.4)%
Dividends and income from joint ventures	3	0.1%	1	0.0%	200.0%	9	0.0%	2	(0.0)%	350.0%
Other expenses, net	(97)	(0.7)%	(46)	(0.5)%	(110.9)%	(215)	(0.7)%	(69)	(0.3)%	211.5%
Foreign exchange loss	(132)	(0.9)%	(39)	(0.4)%	238.4%	(163)	(0.5)%	(316)	(1.3)%	(48.4)%
Total other income/(expenses)	(627)	(4.5)%	(229)	(2.6)%	(173.7)%	6,560	20.0%	(852)	(3.4)%	(869.9)%
Income before income tax and minority interest	2,476	18.0%	1,519	17.0%	63.0%	13,120	40.0%	4,291	17.3%	205.7%
Income tax expense	(574)	(4.1)%	(445)	(5.0)%	28.9%	(3,195)	(9.8)%	(1,264)	(5.1)%	152.7%
Income before minority interest	1,902	13.8%	1,074	12.0%	77.1%	9,925	30.3%	3,027	12.2%	227.8%
Minority interest in subsidiaries' earnings	(12)	(0.1)%	(23)	(0.3)%	(47.8)%	(15)	0.0%	(97)	(0.4)%	(84.5)%
Net income	1,890	13.8%	1,051	11.7%	79.2%	9,910	30.3%	2,930	11.8%	238.2%
Other income	(7)	(0.1)%					0.0%			
Comprehensive income	1,883	13.7%	1,051	11.7%	79.2%	9,910	30.3%	2,930	11.8%	238.2%

Sales Revenues

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

	For the three months ended 30 September		% change		For the nine months ended 30 September		% change			
	2007	2006			2007	2006				
	% of total revenue	% of total revenue			% of total revenue	% of total revenue				
	(US\$ millions, except %)		(%)		(US\$ millions, except %)		(%)			
Crude oil										
Export, excluding CIS	6,821	49.6%	5,725	64.0%	19.1%	18,254	55.7%	15,965	64.2%	14.3%
Europe and other directions	5,256	38.2%	4,267	58.7%	23.2%	14,005	42.7%	12,207	49.1%	14.7%
Asia	1,565	11.4%	1,458	16.3%	7.3%	4,249	13.0%	3,758	15.1%	13.1%
CIS	639	4.6%	513	5.7%	24.6%	1,469	4.5%	1,253	5.0%	17.2%
Domestic	17	0.1%	92	1.0%	(81.5)%	446	1.4%	171	0.7%	161.8%
Gas	85	0.6%	52	0.6%	63.5%	240	0.7%	146	0.6%	64.4%
Total oil and gas	7,562	55.0%	6,382	71.3%	18.5%	20,409	62.3%	17,535	70.5%	16.4%
Petroleum products										
Export, excluding CIS	2,828	20.6%	1,270	14.2%	122.7%	5,815	17.7%	3,941	15.8%	47.6%
Europe and other directions	1,859	13.6%	812	9.1%	128.9%	3,701	11.3%	2,402	9.6%	54.1%
Asia	969	7.0%	458	5.1%	111.6%	2,114	6.4%	1,539	6.2%	37.4%
CIS	79	0.6%	59	0.7%	33.9%	165	0.5%	145	0.6%	13.8%
Domestic	2,931	21.3%	1,114	12.4%	163.1%	5,686	17.4%	2,983	12.0%	90.6%
Wholesale	2,415	17.6%	853	9.5%	183.1%	4,713	14.4%	2,442	9.8%	93.0%
Retail	516	3.7%	261	2.9%	97.7%	973	3.0%	541	2.2%	79.9%
Refining fees	0	0	0	0	0	44	0.1%	0	0	100%
Petrochemical products	27	0.2%			100%	27	0.1%			100%
Total petroleum and petrochemical products and refining fees	5,865	42.7%	2,443	27.3%	140.1%	11,737	35.8%	7,069	28.4%	65.4%
Support services and other revenues	315	2.3%	126	1.4%	150.0%	601	1.9%	276	1.1%	117.8%
Total sales	13,742	100.0%	8,951	100.0%	53.5%	32,747	100.0%	24,880	100.0%	31.6%

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

	For the three months ended 30 September		% change		For the nine months ended 30 September		% change			
	2007	2006	2007	2006	2007	2006	2007	2006		
	% of total sales volume	% of total sales volume	% of total sales volume	% of total sales volume	% of total sales volume	% of total sales volume	% of total sales volume	% of total sales volume		
(millions of barrels)										
Crude oil										
Export excluding CIS	93.98	48.9%	89.04	61.2%	5.6%	286.44	54.8%	258.11	61.1%	11.0%
Europe and other directions	73.01	38.0%	67.39	46.3%	8.4%	222.58	42.6%	200.54	47.5%	11.0%
Asia	20.97	10.9%	21.65	14.9%	(3.0)%	63.86	12.2%	57.57	13.6%	10.9%
CIS	12.89	6.7%	12.51	8.6%	2.9%	33.24	6.4%	33.14	7.9%	0.3%
Domestic	0.52	0.3%	2.34	1.6%	(78.1)%	13.04	2.5%	5.34	1.3%	144.2%
Total crude oil sales	107.39	55.8%	103.89	71.41%	3.4%	332.72	63.7%	296.59	70.3%	12.2%
(millions of tonnes)										
Export excluding CIS	12.85	48.9%	12.17	61.2%	5.6%	39.16	54.8%	35.28	61.1%	11.0%
Europe and other directions	9.98	38.0%	9.21	46.3%	8.4%	30.43	42.6%	27.41	47.5%	11.0%
Asia	2.87	10.9%	2.96	14.9%	(3.0)%	8.73	12.2%	7.87	13.6%	10.9%
CIS	1.76	6.7%	1.71	8.6%	2.9%	4.54	6.4%	4.53	7.9%	0.3%
Domestic	0.07	0.3%	0.32	1.6%	(78.1)%	1.78	2.5%	0.73	1.3%	144.2%
Total crude oil sales	14.68	55.8%	14.20	71.4%	3.4%	45.48	63.7%	40.54	70.3%	12.2%
Petroleum products										
Export excluding CIS	5.62	21.4%	3.15	15.8%	78.4%	12.78	17.9%	9.65	16.7%	32.4%
Europe and other directions	3.93	15.0%	2.03	10.2%	93.6%	8.49	11.9%	5.85	10.1%	45.1%
Asia	1.69	6.4%	1.12	5.6%	50.9%	4.29	6.0%	3.80	6.6%	12.9%
CIS	0.17	0.7%	0.14	0.7%	21.4%	0.37	0.5%	0.43	0.7%	(14.0)%
Domestic	5.82	22.1%	2.39	12.1%	143.5%	12.72	17.8%	7.05	12.3%	80.4%
Wholesale	4.98	18.9%	2.02	10.2%	146.5%	11.22	15.7%	6.16	10.7%	82.1%
Retail	0.84	3.2%	0.37	1.9%	127.0%	1.5	2.1%	0.89	1.6%	68.5%
Total petroleum product sales	11.61	44.2%	5.68	28.6%	104.4%	25.87	36.3%	17.13	29.7%	51.0%
Total crude oil and petroleum product sales	26.29	100.0%	19.88	100.0%	32.2%	71.35	100.0%	57.67	100.0%	23.7%
Gas	(billion bcm)									
Sales volumes	2.86		2.41		18.7%	8.32		6.99		19.0%

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

Average Crude Oil and Petroleum Products Sales Prices Achieved by Rosneft

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

- Seasonal and other production fluctuations;
- Different conditions of sales and supplies versus those cited in mass media;

- Different regional market factors;
- Discounts or mark-ups depending on crude oil or petroleum product quality, sales volume and timing of transactions; and
- Terms of individual contracts differing from average market prices.

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

	For the three months ended 30 September				For the nine months ended 30 September			
	2007		2006		2007		2006	
	(US\$/barrel)	(US\$/tonne)	(US\$/barrel)	(US\$/tonne)	(US\$/barrel)	(US\$/tonne)	(US\$/barrel)	(US\$/tonne)
Average export prices								
Crude oil, excluding CIS	72.58	530.82	64.29	470.39	63.73	466.14	61.85	452.47
Europe and other directions	71.99	526.63	63.31	463.26	62.92	460.23	60.87	445.35
Asia	74.64	545.37	67.34	492.57	66.54	486.74	65.28	477.51
CIS	49.58	363.11	41.01	300.00	44.20	323.59	37.81	276.60
Petroleum products, excluding CIS	—	503.25	—	403.17	—	455.38	—	408.39
Europe and other directions	—	473.10	—	400.00	—	436.47	—	410.60
Asia	—	573.36	—	408.93	—	492.77	—	405.00
CIS	—	465.16	—	421.43	—	446.16	—	337.21
Average domestic prices								
Crude oil	32.19	239.10	39.32	287.50	34.24	250.86	32.02	234.25
Gas (US\$/thousand cubic meter)	—	29.95	—	21.58	—	28.80	—	20.89
Petroleum products	—	503.64	—	466.11	—	447.07	—	423.12
Wholesale	—	485.01	—	422.28	—	420.09	—	396.43
Retail	—	614.10	—	705.41	—	648.89	—	607.87

Revenues were US\$ 13,742 million in the third quarter of 2007, a 53.5% increase from US\$ 8,951 million in the third quarter of 2006. Revenues from the sale of crude oil and gas grew by 18.5%, and revenues from the sale of petroleum products by 140.1%, for the three months ended 30 September 2007 compared with the three month ended 30 September 2006. The growth in revenues was due to increased sales volumes of crude oil and petroleum products, accompanied by an increase in average world prices. The growth in volumes was made possible by a 29.2% increase in crude oil production and a 109.3% increase in petroleum product production during the period being analysed.

Revenues were US\$ 32,747 million in the nine months ended 30 September 2007, a 31.6% increase from US\$ 24,880 million in the nine months ended 30 September 2006. Revenues from the sale of crude oil and gas grew by 16.4%, and revenues from the sale of petroleum products by 65.4%, for the nine months ended 30 September 2007 compared with nine months of 2006. The growth in revenues was due to increased sales volumes of crude oil and petroleum products, accompanied by an increase in average world prices. The growth in volumes was made possible by a 19.6% increase in crude oil production and a 56.0% increase in petroleum product production during the period being analysed.

Crude Oil Export Sales to Non-CIS

In the third quarter of 2007, crude oil export revenues from exports to non-CIS countries were US\$ 6,821 million compared to US\$ 5,725 million in the third quarter of 2006, an increase of US\$ 1,096 million, or 19.1%. The growth resulted from a 12.8% increase in average prices, which had a positive impact on revenues of US\$ 776 million, and a 5.6% increase in sales volumes, which had a positive impact on revenues of US\$ 320 million. The price increase was attributable to the general growth of world prices; in particular, the average price for Urals crude oil Mediterranean increased by 10.0%. Sales volumes grew with respect to both Europe and Asia, mainly due to an increase in crude oil production.

In the nine months ended 30 September 2007, crude oil export revenues from exports to non-CIS countries were US\$ 18,254 million compared to US\$ 15,965 million for the nine months ended 30 September 2006, an increase of US\$ 2,289 million, or 14.3%. Excluding US\$ 45 million from sales by Samaraneftegaz, the growth resulted from a 3.0% increase in average prices, which had a positive impact on revenues of US\$ 535 million, and a 10.7% increase in sales volumes, which had a positive impact on revenues of US\$ 1,709 million. The price increase was attributable to the general growth of world prices; in particular, the average price for

Urals crude oil Mediterranean increased by 1.6%. Sales volumes grew with respect to both Europe and Asia, mainly due to an increase in crude oil production.

Crude Oil Export Sales to CIS

In the third quarter of 2007, revenues from sales of crude oil to the CIS were US\$ 639 million compared to US\$ 513 million in the third quarter of 2006, an increase of US\$ 126 million, or 24.6%. A 21.0% increase in prices, which increased revenues by US\$ 110 million, was accompanied by a 2.9% increase in volumes, which had a positive impact on revenues of US\$ 16 million.

In the nine months ended 30 September 2007, revenues from sales of crude oil to the CIS were US\$ 1,469 million compared to US\$ 1,253 million for the nine months ended 30 September 2006, an increase of US\$ 216 million, or 17.2%. A 17.0% increase in prices, which increased revenues by US\$ 213 million, was accompanied by a 0.3% increase in volumes, which had a positive impact on revenues of US\$ 3 million.

Crude Oil Domestic Sales

Domestic crude oil sales decreased by US\$ 75 million to US\$ 17 million in the third quarter of 2007 as compared with the third quarter of 2006. The 78.1% decrease in volumes, which had a negative impact on revenues of US\$ 72 million, was accompanied by a 18.1% decrease in average realised prices, which decreased revenues by US\$ 3 million. The price decrease was primarily due to the inclusion in the third quarter of 2006 of greater sales of gas condensate for which the price is higher than for crude oil.

Domestic crude oil sales increased by US\$ 275 million to US\$ 446 million in the nine months ended 30 September 2007 as compared with the nine months ended 30 September 2006. This growth resulted from sales by Tomskneft and Samaraneftgaz, which contributed US\$ 352 million (including US\$ 254 million by Tomskneft and US\$ 98 million by Samaraneftgaz) of revenues in the nine months ended 30 September 2007. Excluding these sales, the 42.3% decrease in volumes, which had a negative impact on revenues of US\$ 73 million, was accompanied by a 4.2% decrease in average prices, which decreased revenues by US\$ 4 million.

Petroleum Products Export Sales to Non-CIS

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

	For the third quarter of						% change		
	2007			2006			US\$ millions	millions of tonnes	Average price US\$/ton
	US\$ millions	millions of tonnes	Average price US\$/ton	US\$ millions	millions of tonnes	Average price US\$/ton			
High octane gasoline	42	0.06	739	12	0.02	659	253.8%	215.4%	12.2%
Low octane gasoline	43	0.08	573	19	0.03	626	121.9%	142.1%	(8.4)%
Naphtha	386	0.57	673	186	0.34	542	108.0%	67.5%	24.2%
Diesel (Gasoil) fuel	1,263	2.00	631	556	0.96	582	127.0%	109.4%	8.4%
Fuel oil	964	2.61	369	459	1.73	266	109.9%	51.3%	38.7%
Jet fuel (kerosene)	16	0.02	710	7	0.01	706	132.1%	131.0%	0.5%
Other	114	0.28	401	31	0.06	522	267.1%	378.1%	(23.2)%
Total	2,828	5.62	503	1 270	3.15	403	122.7%	78.4%	24.8%

Revenue from the export of petroleum products to non-CIS countries was US\$ 2,828 million in the third quarter of 2007 compared to US\$ 1,270 million in the third quarter of 2006, an increase of US\$ 1,558 million, or 122.7%. Excluding US\$ 60 million from sales by Yukos-M Trading House from inventory existing prior the acquisition of Yukos-M Trading House by Rosneft in June 2007, the growth resulted from a 74.0% increase in sales volume, which had a positive impact on revenues of US\$ 1,177 million, and a 25.3% increase in average prices, which increased revenues by US\$ 321 million. The growth in volumes was mainly attributable to increased sales in Europe and other non-CIS countries and Asia. The increase in average prices was due to an increase in world prices; in particular, the average price for fuel oil Mediterranean rose by 22.9%.

The table below sets forth Rosneft's average price per tonne of petroleum products sold to non-CIS countries during the nine months ended 30 September 2007 and 2006:

	For the nine months ended 30 September						% change		
	2007			2006			US\$ millions	millions of tonnes	Average price US\$/ton
	US\$ millions	millions of tonnes	Average price US\$/ton	US\$ millions	millions of tonnes	Average price US\$/ton			
High octane gasoline	68	0.10	668	31	0.05	609	114.5%	95.5%	9.7%
Low octane gasoline	70	0.12	583	41	0.07	582	69.0%	68.7%	0.2%
Naphtha	922	1.51	612	600	1.15	523	53.8%	31.6%	16.9%
Diesel (Gasoil) fuel	2,533	4.35	583	1,781	3.21	554	42.2%	35.3%	5.1%
Fuel oil	2,020	6.34	319	1,356	4.90	277	48.9%	29.3%	15.2%
Jet fuel (kerosene)	22	0.03	706	18	0.03	661	22.5%	14.7%	6.9%
Other	180	0.33	542	114	0.24	468	58.5%	36.8%	15.9%
Total	5,815	12.78	455	3,941	9.65	408	47.5%	32.4%	11.5%

Revenue from the export of petroleum products to non-CIS countries was US\$ 5,815 million in the nine months ended 30 September 2007 compared to US\$ 3,941 million for the nine months ended 30 September 2006, an increase of US\$ 1,874 million, or 47.5%. Excluding US\$ 60 million from sales by Yukos-M Trading House, the growth resulted from a 30.9% increase in sales volume, which had a positive impact on revenues of US\$ 1,357 million, accompanied by a 11.6% increase in average prices, which increased revenues by US\$ 457 million. The growth in volumes was mainly attributable to increased sales in Europe and other non-CIS countries and Asia. The increase in average prices was due to an increase in world prices; in particular, the average price for fuel oil Mediterranean rose by 5.9%.

Petroleum Products Export Sales to CIS

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

	For the third quarter of						% change		
	2007			2006			US\$ millions	millions of tonnes	Average price US\$/ton
	US\$ millions	millions of tonnes	Average price US\$/ton	US\$ millions	millions of tonnes	Average price US\$/ton			
High octane gasoline	1	0.00	587	7	0.01	545	(88.7)%	(89.5)%	7.9%
Low octane gasoline	1	0.00	530	0	0.00	0	100.0%	100.0%	100.0%
Naphtha	—	—	—	1	0.00	481	—	—	—
Diesel (Gasoil) fuel	36	0.06	599	24	0.05	467	50.3%	17.1%	28.4%
Fuel oil	24	0.06	401	6	0.03	200	304.9%	102.3%	100.1%
Jet fuel (kerosene)	—	—	—	1	0.00	504	—	—	—
Other	17	0.05	393	20	0.05	412	(13.1)%	(9.0)%	(4.5)%
Total	79	0.17	465	59	0.14	421	33.9%	21.4%	10.4%

In the third quarter of 2007, revenue from sales of petroleum products to the CIS were US\$ 79 million compared to US\$ 59 million in the third quarter of 2006. This growth was attributable to a 10.4% increase in average prices, which increased revenues by US\$ 7 million, and a 21.4% increase in sales volume, which had a positive impact on revenue of US\$ 13 million.

The table below sets forth Rosneft's average price per tonne of petroleum products sold to CIS countries during the nine months ended 30 September 2007 and 2006:

	For the nine months ended 30 September						% change		
	2007			2006			US\$ millions	millions of tonnes	Average price US\$/ton
US\$ millions	millions of tonnes	Average price US\$/ton	US\$ millions	millions of tonnes	Average price US\$/ton				
High octane gasoline	15	0.02	659	9	0.02	511	62.0%	25.6%	25.6%
Low octane gasoline	3	0.01	434	—	—	—	—	—	—
Naphtha	—	—	—	2	0.01	478	—	—	—
Diesel (Gasoil) fuel	68	0.13	538	80	0.18	443	(14.9)%	(29.9)%	21.3%
Fuel oil	35	0.12	282	27	0.16	176	26.4%	(21.0)%	60.0%
Jet fuel (kerosene)	—	—	—	18	0.04	488	—	—	—
Other	44	0.09	489	9	0.02	450	388.9%	350.0%	8.7%
Total	165	0.37	446	145	0.43	337	13.8%	(14.0)%	32.3%

In the nine months ended 30 September 2007, revenue from sales of petroleum products to the CIS were US\$ 165 million compared to US\$ 145 million for the nine months ended 30 September 2006. This increase resulted primarily from a 32.3% increase in prices, which increased revenues by US\$ 40 million, partially offset by a 14.0% decrease in volumes, which had a negative impact on revenues of US\$ 20 million. Sales volumes decreased mainly due to Rosneft limiting its sales to Belarus following export customs duty levied on export sales to Belarus from 1 January 2007. See “—Main Factors Affecting Results of Operations—Changes in Mineral Production Tax and Export Customs Duty—Export Customs Duty.”

Petroleum Products Domestic Sales

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

	For the third quarter of						% change		
	2007			2006			US\$ millions	millions of tonnes	Average price US\$/ton
US\$ millions	millions of tonnes	Average price US\$/ton	US\$ millions	millions of tonnes	Average price US\$/ton				
High octane gasoline	770	1.05	736	282	0.46	616	172.8%	128.3%	19.5%
Low octane gasoline	325	0.50	645	132	0.25	537	146.5%	105.1%	20.2%
Naphtha	—	—	—	—	—	—	—	—	—
Diesel fuel	990	1.86	532	384	0.72	529	158.1%	156.7%	0.5%
Fuel oil	206	0.96	214	79	0.37	216	160.0%	161.3%	(0.5)%
Jet fuel (kerosene)	208	0.43	489	88	0.17	509	137.7%	147.6%	(4.0)%
Other	432	1.02	422	149	0.42	357	189.1%	144.5%	18.2%
Total	2,931	5.82	504	1,114	2.39	466	163.1%	143.5%	8.2%

Revenue from the sale of petroleum products on the domestic market was US\$ 2,931 million in the third quarter of 2007, including US\$ 684 million from sales of petroleum products by marketing subsidiaries recently acquired from Yukos, compared to US\$ 1,114 million in the third quarter of 2006, an increase of US\$ 1,817 million, or 163.1%. Excluding sales of subsidiaries recently acquired from Yukos, the growth in revenue from domestic sales of petroleum products was attributable to a 92.1% increase in sales volume, which had a positive impact on revenues of US\$ 1,025 million. The volume growth was mainly attributable to an increase in crude oil production, including production of Tomskneft and Samaraneftgaz from the date of purchase in May 2007. The volume growth was accompanied by a 5.6% increase in average prices, which had a positive impact on revenues of US\$ 108 million. The increase in sales price was mainly attributable to the growth in world prices of petroleum products.

The table below sets forth Rosneft's average price per tonne of petroleum products sold on the domestic market during the nine months ended 30 September 2007 and 2006:

	For the nine months ended 30 September						% change		
	2007			2006			US\$ millions	millions of tonnes	Average price US\$/ton
US\$ millions	millions of tonnes	Average price US\$/ton	US\$ millions	millions of tonnes	Average price US\$/ton				
High octane gasoline	1,495	2.28	656	719	1.30	555	108.0%	75.9%	18.3%
Low octane gasoline	671	1.16	578	418	0.89	471	60.4%	30.5%	22.9%
Naphtha	2	0.01	384	3	0.01	359	(37.2)%	(41.3)%	7.0%
Diesel fuel	1,935	4.00	484	1,010	2.00	504	91.6%	99.6%	(4.0)%
Fuel oil	417	2.36	177	263	1.33	198	58.5%	77.6%	(10.8)%
Jet fuel (kerosene)	391	0.76	513	224	0.46	491	74.6%	77.6%	4.6%
Other	774	2.15	359	346	1.06	325	115.6%	102.8%	10.4%
Total	5,686	12.72	447	2,983	7.05	423	90.6%	80.4%	5.7%

Revenue from the sale of petroleum products on the domestic market was US\$ 5,686 million in the nine months ended 30 September 2007, including US\$ 762 million from sales of petroleum products by marketing subsidiaries recently acquired from Yukos, compared to US\$ 2,983 million in the nine months ended 30 September 2006, an increase of US\$ 2,703 million, or 90.6%. Excluding sales of subsidiaries recently acquired from Yukos, the growth in revenue from domestic sales of petroleum products resulted from a 61.5% increase in sales volume, which had a positive impact on revenues of US\$ 1,835 million. The volume growth was mainly attributable to an increase in crude oil production, including production of Tomskneft and Samaraneftgaz from the date of purchase in May 2007. The volume growth was accompanied by a 2.2% increase in average prices, which had a positive impact on revenues of US\$ 106 million. The increase in sales price was mainly attributable to the growth in world prices of petroleum products.

Refining Services

Rosneft provided refining services to Yukos-M Trading House prior to its acquisition by Rosneft in late June 2007. Revenues from refining services were US\$ 44 million in the nine months ended 30 September 2007. Rosneft did not provide refining services in the third quarter of 2007 and 2006 and the nine months ended 30 September 2006.

Petrochemical Products Sales

In the third quarter of 2007, Rosneft began to sell petrochemical products as a result of the acquisition in May 2007 of petrochemical companies formerly owned by Yukos. These sales amounted to US\$ 27 million in the third quarter and in the nine months ended 30 September 2007.

Gas Sales

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

	For the three months ended 30 September			For the nine months ended 30 September		
	2007	2006	change	2007	2006	Change
Revenue	(US\$ million)		%	(US\$ million)		%
Western Siberia	38	16	144.1%	93	41	128.2%
South Russia	26	18	46.9%	91	83	9.3%
Far East	5	18	(74.1)%	18	22	(18.4)%
European part of Russia	16	0	100.0%	38	0	100.0%
Total Rosneft	85	52	63.5%	240	146	64.4%
Sales	(bcm)			(bcm)		
Western Siberia	1.72	1.34	28.2%	4.66	3.82	22.0%
South Russia	0.65	0.41	58.5%	2.34	2.45	(4.8)%
Far East	0.12	0.66	(82.0)%	0.45	0.72	(37.5)%
European part of Russia	0.37	0	100.0%	0.87	0.00	100.0%
Total Rosneft	2.86	2.41	18.7%	8.32	6.99	19.0%
Average price	(US\$/thousand of cubic metres)			(US\$/thousand of cubic metres)		
Western Siberia	22	12	90.5%	20	11	87.1%
South Russia	40	43	(6.1)%	39	34	14.8%
Far East	39	27	44.4%	40	30	33.3%
European part of Russia	44	0	100.0%	42	0	100.0%
Total Rosneft	30	21	38.3%	29	21	38.1%

Revenue from the sale of gas was US\$ 85 million in the third quarter of 2007, compared to US\$ 52 million in the third quarter of 2006, an increase of US\$ 33 million, or 63.5%. The growth was attributable to a 39.4% increase in prices, which increased revenues by US\$ 24 million, accompanied by an 18.0% increase in sales volume, from 2.41 bcm to 2.86 bcm, which had a positive impact on revenues of US\$ 9 million.

Revenue from the sale of gas was US\$ 240 million in the nine months ended 30 September 2007, including US\$ 5 million from sales of subsidiaries recently acquired from Yukos, compared to US\$ 146 million for the nine months ended 30 September 2006, an increase of US\$ 94 million, or 64.4%. Excluding sales of subsidiaries recently acquired from Yukos, the growth was attributable to a 39.1% increase in prices, which increased revenues by US\$ 66 million, and a 15.7% growth in sales volume, from 6.99 bcm to 8.32 bcm, which had a positive impact on revenues of US\$ 23 million.

Support Services and Other Revenues

Support services and other revenues were US\$ 315 million in the third quarter of 2007, including US\$ 188 million from revenues of subsidiaries recently acquired from Yukos, 150.0% higher than US\$ 126 million in the third quarter of 2006. Excluding revenues of subsidiaries recently acquired from Yukos, this growth was mainly attributable to an increase in the volume and value of drilling and rent services and sales of materials.

Support services and other revenues were US\$ 601 million in the nine months ended 30 September 2007, including US\$ 284 million from revenues of subsidiaries recently acquired from Yukos, 117.8% higher than US\$ 276 million in the nine months ended 30 September 2006. Excluding revenues of subsidiaries recently acquired from Yukos, this growth was mainly attributable to an increase in the volume and value of drilling and rent services and sales of materials.

Costs and Expenses

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

	For the three months ended 30 September		% change	For the nine months ended 30 September		% change
	2007	2006		2007	2006	
	% of total revenue (US\$ millions, except %)	% of total revenue (US\$ millions, except %)	(%)	% of total revenue (US\$ millions, except %)	% of total revenue (US\$ millions, except %)	(%)
Production and operating expenses	1,329	500	165.8%	2,605	1,487	75.2%
Cost of purchased oil, gas, petroleum products and refinery costs	326	253	28.9%	1,203	835	44.1%
General and administrative expenses	383	228	68.0%	843	548	53.8%
Pipeline tariffs and transportation costs	1,166	899	29.7%	3,069	2,359	30.1%
Exploration expenses	23	38	(39.5)%	82	116	(29.3)%
Depreciation, depletion and amortisation	901	444	102.9%	2,424	1,236	96.1%
Accretion expense ⁽¹⁾	19	9	111.1%	42	25	68.0%
Taxes other than income tax	2,987	1,885	58.5%	7,222	5,391	34.0%
Export customs duty	3,505	2,947	18.9%	8,697	7,740	12.4%
Total costs and expenses	10,639	7,203	47.7%	26,187	19,737	32.7%

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

Costs and expenses were US\$ 10,639 million in the third quarter of 2007, 47.7% higher than US\$ 7,203 million in the third quarter of 2006. This growth was driven by costs of subsidiaries recently acquired from Yukos, accrual of interest related to Yuganskneftegaz' tax liabilities, which are in the process of being restructured, higher depreciation, depletion and amortisation, pipeline tariffs and transportation costs,

costs of purchased crude oil, and real rouble appreciation against the US dollar of 16.2% in the third quarter of 2007 as compared to the third quarter of 2006, according to the CBR. Costs and expenses accounted for 77.4% and 80.5% of Rosneft's total revenues in the third quarter of 2007 and 2006, respectively. Costs and expenses excluding export customs duties and taxes other than income tax accounted for 30.0% and 26.5% of Rosneft's total revenues in the third quarter of 2007 and 2006, respectively.

Costs and expenses were US\$ 26,187 million in the nine months ended 30 September 2007, 32.7% higher than US\$ 19,737 million in the nine months ended 30 September 2006. This growth was driven by costs of subsidiaries recently acquired from Yukos, accrual of interest related to Yuganskneftegaz' tax liabilities, which are in the process of being restructured, higher depreciation, depletion and amortisation, pipeline tariffs and transportation costs, costs of purchased crude oil, and real rouble appreciation against the US dollar of 16.2% in the nine months ended 30 September 2007 as compared to the nine months ended 30 September 2006, according to the CBR. Costs and expenses accounted for 80.0% and 79.3% of Rosneft's total revenues in the nine months ended 30 September 2007 and 2006, respectively. Costs and expenses excluding export customs duties and taxes other than income tax accounted for 31.4% and 26.6% of Rosneft's total revenues in the nine months ended 30 September 2007 and 2006, respectively.

Production and Operating Expenses

In the third quarter of 2007, production and operating expenses were US\$ 1,329 million compared to US\$ 500 million in the third quarter of 2006, a 168.5% increase. The main contributors, excluding the real appreciation of the rouble against the US dollar of 16.2%, were US\$ 758 million operating expenses of subsidiaries recently acquired from Yukos.

In the nine months ended 30 September 2007, production and operating expenses were US\$ 2,605 million compared to US\$ 1,487 million in the nine months ended 30 September 2006, a 75.2% increase. The main contributors, excluding the real appreciation of the rouble against the US dollar of 16.2%, were US\$ 1,066 million operating expenses of subsidiaries recently acquired from Yukos, higher production volumes, an increase in staff and employees, an increase in salaries, an increase in the cost of materials used in the downstream segment and an increase in well workovers expenses in the nine months ended 30 September 2007, as compared with the nine months ended 30 September 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.

Downstream operating expenses include costs of services provided by third parties (such as transshipment, drilling 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 US\$ 719 million and US\$ 386 million, respectively, in the third quarter of 2007 and US\$ 445 million and US\$ 20 million, respectively, in the third quarter of 2006. Other activities' operating expenses accounted for US\$ 224 million in the third quarter of 2007 and US\$ 36 million in the third quarter of 2006.

Of the total production and operating expenses, the upstream and downstream segments accounted for US\$ 1,762 million and US\$ 561 million, respectively, in the nine months ended 30 September 2007 and US\$ 1,152 million and US\$ 232 million, respectively, in the nine months ended 30 September 2006. Other activities' operating expenses accounted for US\$ 282 million in the nine months ended 30 September 2007 and US\$ 103 million in the nine months ended 30 September 2006.

Upstream production and operating expenses were US\$ 719 million in the third quarter of 2007, or US\$ 3.74 per barrel of crude oil produced and US\$ 3.34 per barrel of oil equivalent produced. These expenses were US\$ 445 million in the third quarter of 2006, or US\$ 2.99 per barrel of crude oil produced and US\$ 2.64 per barrel of oil equivalent produced. Upstream production and operating expenses in the third quarter of 2007, excluding Sakhalin-1 costs and costs of upstream subsidiaries recently acquired from Yukos, were US\$ 3.01 per barrel of crude oil produced and US\$ 2.55 per barrel of oil equivalent produced. These measures are defined below under "—Key Financial Ratios." The growth in upstream production and operating expense is due to an increase in the volume and cost of geotechnical operations, increase in electricity expense and the real rouble appreciation against US dollar of 16.2%.

Upstream production and operating expenses were US\$ 1,762 million in the nine months ended 30 September 2007, or US\$ 3.44 per barrel of crude oil produced and US\$ 3.04 per barrel of oil equivalent

produced. These expenses were US\$ 1,152 million in the nine months ended 30 September 2006, or US\$ 2.69 per barrel of crude oil produced and US\$ 2.36 per barrel of oil equivalent produced. Upstream production and operating expenses in the nine months ended 30 September 2007, excluding Sakhalin-1 costs and costs Tomskneft and Samaraneftgaz, were US\$ 3.02 per barrel of crude oil produced and US\$ 2.56 per barrel of oil equivalent produced. These measures are defined below under “—Key Financial Ratios.” The growth in upstream production and operating expense is due to an increase in the volume and cost of geotechnical operations, increase in electricity expense, increase in electricity expense and the real rouble appreciation against US dollar of 16.2%.

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

	For the three months ended 30 September		Change %	For the nine months ended 30 September		Change %
	2007	2006		2007	2006	
Petroleum products output by the Komsomolsk and Tuapse refineries and mini-refineries	(millions of tonnes)			(millions of tonnes)		
High octane gasoline	0.14	0.12	22%	0.38	0.32	19%
Low octane gasoline	0.07	0.09	(28)%	0.25	0.30	(17)%
Naphtha	0.39	0.33	19%	1.11	0.93	19%
Diesel fuel	0.96	0.79	21%	2.76	2.39	15%
Fuel oil	1.30	1.13	14%	3.80	3.25	17%
Jet fuel (kerosene)	0.08	0.07	10%	0.24	0.21	15%
Other ⁽¹⁾	0.15	0.20	(25)%	0.50	0.50	(1)%
Total	3.08	2.74	13%	9.04	7.90	14%
Operating expenses and selling, general and administrative expenses (US\$ millions)	32	25	28%	87	65	34%
Operating expenses and general and administrative expenses per tonne of output (US\$)	10.38	9.14	14%	9.62	8.23	17%
Operating expenses and general and administrative expenses per tonne of throughput (US\$)	10.17	8.93	13.7%	9.28	7.88	17.8%

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

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2007	2006	2007	2006
Petroleum products output by the Angarsk, Achinsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery	(millions of tonnes)			
High octane gasoline	0.92	-	1.19	-
Low octane gasoline	0.50	-	0.66	-
Naphtha	0.38	-	0.55	-
Diesel fuel	2.87	-	3.80	-
Fuel oil	2.58	-	3.36	-
Jet fuel (kerosene)	0.35	-	0.42	-
Other ⁽¹⁾	1.24	-	1.66	-
Total	8.85	-	11.63	-
Operating expenses and selling, general and administrative expenses (US\$ millions)	230	-	355	-
Operating expenses and general and administrative expenses per tonne of output (US\$)	26.00	-	30.50	-
Operating expenses and general and administrative expenses per tonne of throughput (US\$)	24.76	-	28.92	-

(1) Figures do not include fuel for technological purposes and losses (as far as these products are not part of commodity output).

(2) Data presented from the date of acquisition of these refineries by Rosneft in May 2007.

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

The cost of purchased crude oil, gas, petroleum products and refining costs includes crude oil, gas and petroleum product procurement costs and costs of refining Rosneft's crude oil at third-party refineries. The 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 third quarter of 2007 and in the nine months ended 30 September 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 30 September		% change (%)	For the nine months ended 30 September		% change (%)
	2007	2006		2007	2006	
Refinery fees paid to the Angarsk, Achinsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery (US\$ millions)	-	122	(100.0)%	198 ⁽¹⁾	368	(46.2)%
Rosneft crude oil throughput at the Angarsk, Achinsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery (millions of tonnes)	-	3.14	(100.0)%	6.09	9.50	(35.6)%
Refining fees per tonne (US\$)	-	38.91	(100.0)%	32.56	38.74	(16.0)%
Cost of procurement of gas (US\$ millions)	12	-	-	31	-	-
Procurement of gas (bcm)	0.33	-	-	0.85	-	-
Cost of procurement of petroleum products from third parties by the downstream segment ⁽²⁾ (US\$ millions)	135 ⁽³⁾	81	66.7%	302 ⁽⁵⁾	247	22.3%
Procurement of petroleum products from third parties by the downstream segment ⁽³⁾ (millions of tonnes)	0.27 ⁽⁴⁾	0.22	58.8%	0.64 ⁽⁶⁾	0.61	14.3%
Cost of procurement of crude oil from third parties by the downstream segment (US\$ millions) ⁽⁷⁾	179	50	258.0%	672	220	205.5%
Procurement of crude oil from third parties by the downstream segment (millions of barrels) ⁽⁷⁾	6.04	1.72	251.1%	23.16	7.67	202.0%
Total cost of purchased oil, gas, petroleum products and refinery fees paid (US\$ millions)⁽⁸⁾	326	253	28.9%	1,203	835	44.1%

- (1) From the date of purchase of these refineries by Rosneft in May 2007, the refinery fees are reflected in operating expenses, taxes, depreciation, depletion and amortisation and general and administrative costs. In the nine months ended 30 September 2007, refinery fees included in operating expenses were US\$ 309 million, refinery fees included in taxes were US\$ 34 million, refinery fees included in depreciation, depletion and amortisation were US\$ 123 million and refinery fees included in general and administrative costs were US\$ 46 million. The refinery fees paid to the former Yukos refineries also include a margin that is eliminated upon consolidation from the date of their acquisition in May 2007.
- (2) The upstream segment also purchases petroleum products from third parties for use in its own operations. These purchases are reflected in production and operating expenses and are included in upstream operating expenses to calculate the relevant key performance indicators mentioned below.
- (3) Including cost of procurement of petroleum products from third parties by downstream subsidiaries recently acquired by Rosneft from Yukos, amounting to US\$ 76 million in the third quarter of 2007.
- (4) Including cost of procurement of petroleum products from third parties by downstream subsidiaries recently acquired by Rosneft from Yukos, amounting to 0.16 million tonnes in the third quarter of 2007.
- (5) Including cost of procurement of petroleum products from third parties by downstream subsidiaries recently acquired by Rosneft from Yukos, amounting to US\$ 117 million from the date of purchase to 30 September 2007 (US\$ 76 million in the third quarter of 2007).
- (6) Including cost of procurement of petroleum products from third parties by downstream subsidiaries recently acquired by Rosneft from Yukos, amounting to 0.21 million tonnes from the date of purchase to 30 September 2007.
- (7) The Company purchases crude oil from Udmurtneft. In 2006, Rosneft also purchased crude oil from the Sakhalin-1 PSA. Starting from 31 July 2006, the Company started to account for Sakhalin-1 under the proportionate consolidation method.
- (8) Including a margin paid to the former Yukos refineries that is eliminated upon consolidation from the date of their acquisition in May 2007.

The refinery fees paid to the Angarsk, Achinsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery are high compared to the refining costs of the Tuapse and Komsomolsk refineries. The refining costs of the Tuapse and Komsomolsk refineries do not include depreciation, which is reported in depreciation, depletion and amortisation, and taxes other than income tax, while these are included in the refinery fees paid to the former Yukos refineries.

In the third quarter of 2007, the cost of purchased crude oil, petroleum products and refining costs were US\$ 326 million, a 28.9% increase from US\$ 253 million in the third quarter of 2006. The increase was mainly attributable to the crude oil purchase agreement entered into with Udmurtneft in the fourth quarter of 2006.

In the nine months ended 30 September 2007, the cost of purchased crude oil, petroleum products and refining costs were US\$ 1,203 million, a 44.2% increase from US\$ 835 million in 2006. The increase was mainly attributable to the growth in domestic purchase prices of crude oil.

In the third quarter of 2006 and in the nine months ended 30 September 2006, Rosneft purchased almost all of the crude oil (approximately 1.72 million barrels and 7.67 million barrels, respectively) produced by the Sakhalin-1 joint venture for US\$ 50 million and US\$ 220 million, respectively. Approximately 1.53 million barrels of crude oil and approximately 4.61 million barrels of crude oil were supplied in the third quarter of 2006 and in the nine months ended 30 September 2006, respectively, 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 was 6.04 million barrels accounting for US\$ 179 million in the third quarter of 2007 and in was 23.16 million barrels accounting for US\$ 672 million in the nine months ended 30 September 2007.

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 0.27 million tonnes in the third quarter of 2007 and 0.22 million tonnes in the third quarter of 2006, and it was 0.64 million tonnes in the nine months ended 30 September 2007 and 0.61 million tonnes in the nine months ended 30 September 2006.

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

	For the three months ended 30 September						% change		
	2007			2006			US\$ millions	millions of tonnes	Average price US\$/ton
	US\$ millions	millions of tonnes	Average price US\$/ton	US\$ millions	millions of tonnes	Average price US\$/ton			
High octane gasoline	77	0.12	623.02	16	0.03	532.04	378.6%	308.7%	17.1%
Low octane gasoline	15	0.03	510.14	6	0.01	487.52	165.4%	153.6%	4.6%
Diesel fuel	30	0.07	399.70	18	0.05	401.00	63.9%	64.4%	(0.3)%
Fuel oil	10	0.04	240.49	17	0.08	220.20	(44.3)%	(49.0)%	9.2%
Jet fuel (kerosene)	4	0.01	470.63	0	0.00	-	-	1650.9%	-
Other	0	0.00	-	24	0.06	393.70	(100.0)%	(100.0)%	-
Total	135	0.27	501.03	81	0.22	365.93	68.0%	22.7%	36.9%

Rosneft's average price per tonne of petroleum products procured from third parties increased in the third quarter of 2007 mainly as a result of the cost of procurement of petroleum products from third parties of downstream subsidiaries recently acquired by Rosneft from Yukos, amounting to US\$ 76 million, or 0.16 million tonnes of petroleum products in the third quarter of 2007. Excluding this factor, Rosneft's average price per tonne of petroleum products procured from third parties increased by 46.4% in the third quarter of 2007 as a result of a change in average prices for petroleum products, change in mix of procured petroleum products and the real rouble appreciation against US\$ of 16.2%. Excluding the cost of procurement of petroleum products from third parties of former Yukos downstream subsidiaries, Rosneft's cost of procurement of petroleum products from third parties decreased by 27.2% in the third quarter of 2007 as a result of a 50.0% decrease in volumes of procurement due to the acquisition of downstream production companies formerly owned by Yukos.

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

	For the nine months ended 30 September						% change		
	2007			2006			US\$ millions	millions of tonnes	Average price US\$/ton
	US\$ millions	millions of tonnes	Average price US\$/ton	US\$ millions	millions of tonnes	Average price US\$/ton			
High octane gasoline	121	0.19	642.10	46	0.08	543.62	165.2%	124.5%	18.1%
Low octane gasoline	29	0.05	564.16	33	0.07	468.96	(14.5)%	(29.0)%	20.3%
Diesel fuel	90	0.19	481.50	77	0.15	501.56	16.0%	20.8%	(4.0)%
Fuel oil	40	0.19	209.99	55	0.22	243.86	(26.7)%	(14.8)%	(13.9)%
Jet fuel (kerosene)	4	0.01	471.16	0	0.00	462.90	1079.7%	1059.0%	1.8%
Other	18	0.03	717.49	36	0.08	426.36	(47.5)%	(68.8)%	68.3%
Total	302	0.66	471.18	247	0.60	404.92	22.1%	4.9%	16.4%

Rosneft's average price per tonne of petroleum products procured from third parties increased in the nine months ended 30 September 2007 mainly as a result of the cost of procurement of petroleum products from third parties by downstream subsidiaries recently acquired by Rosneft from Yukos, amounting to US\$ 117 million, or 0.21 million tonnes of petroleum products, from the date of purchase to 30 September 2007. Excluding this factor, Rosneft's average price per tonne of petroleum products procured from third parties increased by 6.3% in the nine months ended 30 September 2007 as a result of a change in average prices for petroleum products and mix of petroleum products procured. Excluding the cost of procurement of petroleum products from third parties of former Yukos downstream subsidiaries, Rosneft's cost of procurement of petroleum products from third parties decreased by 25.1% in the nine months ended 30 September 2007 as a result of a 29.5% decrease in volumes of procurement due to the acquisition of downstream production companies formerly owned by Yukos.

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

General and Administrative Expenses

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

General and administrative expenses in the third quarter of 2007 were US\$ 383 million, 68.0% higher than US\$ 228 million in the third quarter of 2006. This increase was mainly due to the general and administrative expenses of subsidiaries recently acquired from Yukos of US\$ 128 million, increased salaries and bonuses and auditing and consulting service, and the real rouble appreciation of 16.2%.

General and administrative expenses in the nine months ended 30 September 2007 were US\$ 843 million, 53.8% higher than US\$ 548 million in the nine months ended 30 September 2006. This increase was mainly due to the general and administrative expenses of subsidiaries recently acquired from Yukos of US\$ 181 million and increased salaries and bonuses due to an increase in the number of employees, and consulting services, and the real rouble appreciation of 16.2%.

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 US\$ 1,166 million in the third quarter of 2007 from US\$ 899 million in the third quarter of 2006. This 29.7% increase was mainly due to an increase in the volume of transported oil and petroleum products by the pipeline and railway tariffs of natural monopolies. Rosneft's crude oil export pipeline cost per tonne increased by 12.4% in the third quarter of 2007 in terms of US dollar compared to the third quarter of 2006. Rosneft's crude oil domestic pipeline cost per tonne for transportation to refineries decreased by 26% in the third quarter of 2007 compared to the third quarter of 2006 due to shorter transportation distance from recently acquired Samaraneftgaz to new refining facilities – Kuibyshev refinery. Rosneft's tariff per tonne of exported petroleum products transported via Transnefteprodukt increased by 214.4% in the third quarter of 2007 compared to the third quarter of 2006, due to the use of new logistical schemes and transportation routes (Ventspils and Bryansk-Ventspils) and to rouble appreciation.

Pipeline tariffs and transportation costs grew to US\$ 3,069 million in the nine months ended 30 September 2007 from US\$ 2,359 million in the nine months ended 30 September 2006. This 30.1% increase was mainly due to an increase in the volume of transported oil and petroleum products by the pipeline and railway tariffs of natural monopolies. Rosneft's crude oil export pipeline cost per tonne increased by 12.3% in the nine months ended 30 September 2007 compared to the nine months ended 30 September 2006. Rosneft's crude oil domestic pipeline tariffs for transportation to refineries decreased by 5.0% in the nine months ended 30 September 2007 compared to the nine months ended 30 September 2006 due to shorter transportation distance from recently acquired Samaraneftgaz to new refining facilities – Kuibyshev refinery. Rosneft's cost per tonne of exported petroleum products transported via Transnefteprodukt increased by 230.6% in the nine months ended 30 September 2007 compared to the nine months ended 30 September 2006, due to the use of new logistical schemes and transportation routes (Ventspils and Bryansk-Ventspils) and to rouble appreciation.

In the third quarter of 2007, Rosneft transported 91.0 million barrels (12.1 million tonnes) of crude oil via Transneft to domestic refineries and approximately 70.8 million barrels (9.7 million tonnes) for export sales via Transneft and CPC, compared to approximately 42.9 million barrels (5.7 million tonnes) of deliveries to domestic refineries and 66.9 million barrels (9.1 million tonnes) for export sales in the third quarter of 2006.

In the nine months ended 30 September 2007, Rosneft transported 192.9 million barrels (26.4 million tonnes) of crude oil via Transneft to domestic refineries and approximately 208.2 million barrels (28.5 million tonnes) for export sales via Transneft and CPC, compared to approximately 121.3 million barrels (16.6 million tonnes) of deliveries to domestic refineries and 196.7 million barrels (26.9 million tonnes) for export sales in the nine months ended 30 September 2006.

In the third quarter of 2007, the Company transported 3.3 million tonnes petroleum products, including 2.4 million tonnes by railroad, 0.4 million tonnes via pipelines and 0.4 million tonnes using a combination of transportation means. In the third quarter of 2006, the Company transported 1.7 million tonnes petroleum products, including 1.3 million tonnes by railroad, 0.1 million tonnes via pipelines and 0.3 million tonnes using a combination of transportation means.

In the nine months ended 30 September 2007, the Company transported 7.9 million tonnes petroleum products, including 6.3 million tonnes by railroad, 0.9 million tonnes via pipelines and 0.7 million tonnes using a combination of transportation means. In the nine months ended 30 September 2006, the Company transported 6.3 million tonnes petroleum products, including 5.1 million tonnes by railroad, 0.2 million tonnes via pipelines and 1.0 million tonnes using a combination of transportation means.

Crude oil railway domestic cost per tonne decreased by 16.0% and railway export cost per tonne increased by 6.4% in the third quarter of 2007 compared to the third quarter of 2006. Crude oil railway domestic cost per tonne decreased by 3.0% and railway export cost per tonne increased by 6.4% for the nine months ended 30 September 2007 compared to the nine months ended 30 September 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 third quarter of 2007, exploration expenses decreased to US\$ 23 million from US\$ 38 million in third quarter 2006 or by 39.5%. The decrease was mainly due to a portion of the exploration expenses for the Sakhalin-4 and Sakhalin-5 projects being covered by carried financing obtained by Rosneft from BP in 2007. Exploration expenses in the third quarter of 2007 included US\$ 7 million of exploration expenses for Tomskneft and Samaraneftgaz.

In the nine months ended 30 September 2007, exploration expenses decreased by US\$ 34 million, or 29.3%, to US\$ 82 million from US\$ 116 million in the nine months ended 30 September 2006. The decrease was mainly due to a portion of the exploration expenses for the Sakhalin-4 and Sakhalin-5 projects being covered by carried financing obtained by Rosneft from BP in 2007. Exploration expenses of recently acquired assets comprised US\$ 8 million for the nine months ended 30 September 2007.

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 US\$ 901 million in the third quarter of 2007 compared to US\$ 444 million in the third quarter of 2006. The 109.2% increase was mainly due to a revaluation of fixed assets as a result of the Share Swap in the fourth quarter of 2006. This increase was accompanied by an increase in average depletion rates for oil and gas properties to 1.75% in the third quarter of 2007 from 1.48% in the third quarter of 2006 due to the acquisition of Tomskneft and Samaraneftegaz. Depreciation, depletion and amortisation for all the assets recently acquired from Yukos was US\$ 90 million in the third quarter 2007.

Depreciation, depletion and amortisation was US\$ 2,424 million in the nine months ended 30 September 2007 compared to US\$ 1,236 million for the nine months ended 30 September 2006. The 96.1% increase was mainly due to a revaluation of fixed assets as a result of the Share Swap in the fourth quarter of 2006 and due to increased capital expenditures, which resulted in an increased balance sheet value of fixed assets in the nine months ended 30 September 2007 compared to the nine months ended 30 September 2006. Capital expenditures increased primarily as a result of investments in Yuganskneftegaz and the Vankorskoye field. This increase was partially offset by a decrease in average depletion rates for oil and gas properties to 5.20% in the nine months ended 30 September 2007 from 3.68% in the nine months ended 30 September 2006 due to the acquisition of Tomskneft and Samaraneftegaz. Depreciation, depletion and amortization for all the assets recently acquired from Yukos was US\$ 248 million in the nine months ended 30 September 2007 from the date of acquisition of these assets.

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 30 September		% change	For the nine months ended 30 September		% change
	2007	2006	(%)	2007	2006	(%)
	(million US\$)			(million US\$)		
Mineral production tax	2,559	1,744	46.7%	6,160	4,935	24.8%
Excise tax	273	40	582.7%	584	220	165.5%
Social security	71	17	317.6%	174	103	68.9%
Property tax	60	41	46.3%	143	73	95.9%
Land tax	6	2	220.3%	9	6	56.8%
Transportation tax	0	0	-	3	1	200.0%
Interest and penalties	17	0	-	74	0	100.0%
Other taxes and payments	1	41	100.0%	75	53	41.5%
Total taxes other than income tax	2,987	1,885	58.5%	7,222	5,391	34.0%

Taxes other than income tax increased by 58.5% to US\$ 2,987 million in the third quarter of 2007, compared to US\$ 1,885 million in the third quarter of 2006. The growth in taxes resulted mainly from taxes other than income tax of US\$ 623 million of the subsidiaries recently acquired from Yukos, from an increase in excise tax following the acquisition of former Yukos refineries, resulting in Rosneft bearing directly the excise tax, and an increase in export duty and mineral production tax per tonne.

Taxes other than income tax increased by 34.0% in the nine months ended 30 September 2007 to US\$ 7,222 million, compared to US\$ 5,391 million in the nine months ended 30 September 2006. The growth

in taxes resulted mainly from taxes other than income tax of US\$ 961 million of the subsidiaries recently acquired from Yukos and from an increase in excise tax following the acquisition of former Yukos refineries, resulting in Rosneft bearing directly the excise tax, and an increase in export duty and mineral production tax per tonne.

In May 2007, Rosneft was included in the Russian Government's list of strategic enterprises and organisations. As a strategic enterprise, Rosneft is eligible to restructure its tax debt to the federal budget. The Company currently has US\$ 1,314 million in tax debt incurred by Yuganskneftegaz between 1999 and 2004, excluding penalties and interest. This debt and the preliminary assessment on a portion of the related penalties, which should have been accrued before the date of acquisition, were reflected in the allocation of the purchase price to Yuganskneftegaz' assets when accounting for the acquisition completed at the end of 2004. Interest on the unpaid debt has been accrued over time, though the Company was permitted under Russian law and the generally accepted accounting principles in the United States ("US GAAP") to suspend the accrual of a significant amount of interest during the period being analysed. The portion of interest that remained was accrued as taxes other than income tax or income tax, depending on the nature of the related unpaid tax.

On 1 June 2007, the Company and the federal tax authorities agreed, subject to the approval of the Russian Government, on the total amount of Yuganskneftegaz' tax liabilities to be restructured, including penalties and interest. In order for the restructuring to cover interest in full, and to allow interest to be forgiven in full if the Company is able to discharge its restructured tax obligations before they come due, the Company agreed to cancel the suspension of accrual of interest described above. As a result, additional interest of approximately US\$ 454 million, including US\$ 387 million of interest on taxes other than income tax and US\$ 67 million of interest on income tax, was accrued as of 30 September 2007, representing interest the accrual of which was suspended in that period as well as in prior periods.

The total amount of interest and penalties payable in respect of the US\$ 1,314 million Yuganskneftegaz' tax debt amounted to US\$ 973 million as of 30 September 2007. Interest has continued to accrue in accordance with the Tax Code based on the CBR refinancing rate and will continue to accrue at that rate until the restructuring plan is approved by the Russian Government. The Company may seek to discharge its obligations to pay the restructured tax debt before it comes due, in which case penalties and interest will be forgiven, and will be recognised as income at that time under US GAAP.

In the third quarter of 2007, the total amount of interest and penalties accrued in respect of the Yuganskneftegaz' tax debt included penalties of US\$ 38 million, including US\$ 7 million for corporate income tax and US\$ 31 million for taxes other than income tax. Penalties for taxes other than income tax in the third quarter of 2007 included US\$ 24 million for mineral production tax, US\$ 0.06 million for property tax, US\$ 0.01 million for land tax and US\$ 7 million for other taxes.

In the nine months ended 30 September 2007, the total amount of interest and penalties accrued in respect of the Yuganskneftegaz' tax debt included penalties of US\$ 437 million, including US\$ 64 million for corporate income tax and US\$ 373 million for taxes other than income tax. Penalties for taxes other than income tax in the nine months ended 30 September 2007 included US\$ 316 million for mineral production tax, US\$ 0.54 million for property tax, US\$ 0.1 million for unified social tax, US\$ 0.04 million for land tax and US\$ 56 million for other taxes.

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 30 September		% change (%)	For the nine months ended 30 September		% change (%)
	2007 (US\$ millions)	2006 (US\$ millions)		2007 (US\$ millions)	2006 (US\$ millions)	
Export duty for crude oil	2,813	2,586	8.8%	7,287	6,726	8.3%
Export duty for petroleum products	692	361	91.7%	1,410	1,014	39.1%
Total export customs duties	3,505	2,947	18.9%	8,697	7,740	12.4%

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2007	2006	2007	2006
	(US\$ per barrel, except %)		(US\$ per barrel, except %)	
Average Urals price	72.2	65.8	63.9	62.9
Customs duty as defined in customs legislation	34.7	30.5	29.3	28.7
Average price of crude oil sold by Rosneft to non-CIS Countries	72.6	64.3	63.7	61.9
Export customs duty as % of average Urals prices as calculated	48%	46%	46%	46%
	(US\$ million, except %)		(US\$ million, except %)	
Crude oil customs duties ⁽¹⁾	2,813	2,586	7,287	6,726
Crude oil export sales ⁽²⁾	7,460	5,724	19,723	15,965
Export customs duty as % of crude oil export sales ⁽²⁾	38%	45%	37%	42%

(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 US GAAP than on the amount of export customs duty determined under the formula. The effect of this timing factor can be seen in the relative movements over time of “export customs duty as percentage of average Urals prices, as calculated” and “export customs duty as percentage of crude oil export sales” in the preceding table.

Export customs duty increased as a percentage of average Urals prices in the third quarter of 2007 compared to the third quarter of 2006, while it decreased as a percentage of crude oil export sales in the same period. Export customs duties were US\$ 3,505 million in the third quarter of 2007 compared to US\$ 2,947 million in the third quarter of 2006. This increase is explained by a 104.4% growth in export volumes of petroleum products and a 0.2% growth in export volumes of crude oil, accompanied by a raise in tariff of export duty of 2.4-4.9% depending on the type of hydrocarbons, and taking into account time lag in arrangement of export duty rate by Russian Government.

Export customs duty remained unchanged as a percentage of average Urals prices in the nine months ended 30 September 2007 compared to the nine months ended 30 September 2006, while it decreased as a percentage of crude oil export sales during the same period. Export customs duties were US\$ 8,697 million in the nine months ended 30 September 2007 compared to US\$ 7,740 million in the nine months ended 30 September 2006. The increase resulted from a growth in export volumes to non-CIS countries of 12.2% for crude oil and 51.0% for petroleum products. This increase was partially offset by an average decrease in tariffs of export customs duties, which ranged from a 1.0% decrease to a 1.4% increase, depending on the type of hydrocarbons. The increase also resulted from the introduction of export duty on crude oil exported from the Russian Federation to Belarus and export duties of US\$ 31 million of the subsidiaries recently acquired from Yukos.

Operating Income

As a result of the factors discussed above, operating income increased by 77.5% in the third quarter of 2007 compared to the third quarter 2006. As a percentage of total revenues, operating income was 22.6% and 19.5% in the third quarters of 2007 and 2006, respectively. As a percentage of revenues, operating income before taxes other than income tax and export customs duty was 69.8% and 73.5% in the third quarters of 2007 and 2006, respectively.

As a result of the factors discussed above, operating income increased by 27.6% in the nine months ended 30 September 2007 compared to the nine months ended 30 September 2006. As a percentage of total revenues, operating income was 20.0% and 20.7% in the nine months ended 30 September 2007 and 2006, respectively. As a percentage of revenues, operating income before taxes other than income tax and export customs duty was 68.6% and 73.4% in the nine months ended 30 September 2007 and 2006, respectively.

Other Income/(Expenses)

Interest Income

Interest income increased by 83.3% to US\$ 77 million in the third quarter of 2007 from US\$ 42 million in the third quarter of 2006. These increases were mainly due to the growth in Rosneft's banking activities.

Interest income increased by 52.0% to US\$ 155 million in the nine months ended 30 September 2007 from US\$ 102 million in the nine months ended 30 September 2006. These increases were mainly due to the growth in Rosneft's banking activities.

Interest Expense

Interest expense increased by 120.9% to US\$ 422 million in the third quarter of 2007 compared to US\$ 191 million in the third quarter of 2006. In March 2007, Rosneft entered into loan agreements with a consortium of international banks for a total amount of US\$ 22.0 billion bearing interest at LIBOR plus 0.25-0.50% per annum depending on the final settlement date. These loans were drawn to help finance the acquisition of Subsidiaries recently acquired from Yukos in the course of auctions for sales of these assets thereafter. As of 30 September 2007, US\$ 12.3 billion was outstanding under these loan agreements.

Interest expense increased by 86.5% to US\$ 1,067 million in the nine months ended 30 September 2007 compared to US\$ 572 million in the nine months ended 30 September 2006. This increase resulted from the US\$ 22.0 billion loan as described above.

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 US\$ 49 million in the third quarter of 2007, compared to a loss of US\$ 8 million in the third quarter of 2006. This increase was primarily due to a write-off of housing in Chechnya and the Russian Far East. Loss on disposal of property, plant and equipment for subsidiaries recently acquired from Yukos was US\$ 19 million for the third quarter of 2007.

Loss on disposal of property, plant and equipment was US\$ 83 million in the nine months ended 30 September 2007, compared to a loss of US\$ 25 million in the nine months ended 30 September 2006. This increase is explained in the paragraph above.

Gain from Yukos Oil Company Bankruptcy Proceeds

In June 2007, the Company received approximately RUB 252.6 billion (US\$ 9.8 billion at the CBR exchange rate as of the reception date) as a creditor in the Yukos bankruptcy. Out of this amount, US\$ 483 million was recorded in the nine months ended 30 September 2007 as a repayment of debt receivable acquired earlier, US\$ 1,396 million was recorded as collection of accounts receivable, and the remaining US\$ 7,920 million recorded as income in the consolidated statement of income. The Company used these proceeds to reduce the US\$ 22.0 billion in Company borrowings referred to above, as well as other borrowings.

Other Income/(Expenses), Net

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

In the third quarter of 2007, other expenses, net, were US\$ 97 million, compared to US\$ 46 million in the third quarter of 2006. Other expenses of subsidiaries recently acquired from Yukos were US\$ 31 million in the third quarter of 2007.

In the nine months ended 30 September 2007, other expenses, net, were US\$ 215 million, compared to US\$ 69 million in the nine months ended 30 September 2006. The increase was primarily due to the recently acquired Yukos assets, increases in social expenditures and contributions to charity. This increase was partially offset by a US\$ 98 million income related to the Company receiving title to a 100% interest in Yukos-Mamontovo for no consideration. See "—Significant Acquisitions—Other Significant Acquisitions—Other Significant Acquisitions Prior to 30 September 2007—Yukos-Mamontovo" Other expenses of subsidiaries recently acquired from Yukos were US\$ 39 million in the nine months ended 30 September 2007.

Foreign Exchange Losses

Foreign exchange losses were US\$ 132 million in the third quarter of 2007 compared to US\$ 39 million loss in the third quarter of 2006. This increase in loss resulted from the impact of a further appreciation of the rouble against the US dollar together with net rouble monetary position in Income and other tax liabilities and Deferred tax liabilities at 30 September 2007

Foreign exchange losses were US\$ 163 million for the nine months ended 30 September 2007 compared to US\$ 316 million for the nine months ended 30 September 2006. The decrease in the foreign exchange losses resulted from the impact of a further appreciation of the rouble against the US dollar and agreements for forward sale of US dollar-denominated revenue entered into by Rosneft in January 2007 in order to hedge currency risk.

Income Tax Expense

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

	For the nine months ended 30 September		For the three months ended 30 September	
	2007	2006	2007	2006
Effective income tax rate for Rosneft under US GAAP	24.4%	29.5%	23.2%	29.3%

The Company does not pay taxes based on consolidated income before taxes under Russian law. Income tax is calculated for each subsidiary based on its profits in accordance with Russian accounting principles. The US GAAP effective profit tax rate was 23.2% in the third quarter of 2007 and 24.4% in the nine months ended 30 September 2007, based on the projections for 2007, and 29.3% in the third quarter of 2006 and 29.5% in the nine months ended 30 September 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 third quarters of 2007 and 2006 and in the nine months ended 30 September 2007 and 2006 were the impact of foreign exchange gain determined under US GAAP, which is not taxable and is included in income before income tax and minority interest, and the 4% income tax exemption under local regulations.

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 US\$ 574 million in the third quarter of 2007 compared to US\$ 445 million in the third quarter of 2006. Current income tax increased from US\$ 399 million in the third quarter of 2006 to US\$ 713 million in the third quarter of 2007, while deferred tax expense decreased from US\$ 46 million to deferred tax benefit of US\$ 139 million. Income tax for subsidiaries recently acquired from Yukos was US\$ 100 million in the third quarter of 2007, while current income tax for these subsidiaries was US\$ 105 million and deferred income tax benefit was US\$ 5 million. At the end of 2006, Rosneft recognised a deferred tax asset in the amount of US\$ 1,285 million recorded as a result of a favourable court decision on the Company's claim for the lost profits against Yukos, whereby taxable non-operating income relating to the amount awarded by the court was recognised for Russian accounting tax purposes but not under US GAAP. Taxes paid in 2006 on this non-operating income were treated for US GAAP purposes as the creation of a deferred tax asset resulting in corresponding deferred tax benefit. Out of this deferred tax benefit, US\$ 1,160 million were reversed in the second quarter of 2007 when Rosneft received payment of the Yukos bankruptcy proceeds, representing approximately 91% of the amount awarded by the court at the end of 2006. The current income tax expense increased due to the reversal of bad debt reserve that was previously created in tax registry for a portion of Yukos receivables, which increased the current income tax expense by more than US\$ 700 million.

Income tax was US\$ 3,195 million for the nine months ended 30 September 2007 compared to US\$ 1,264 million the nine months ended 30 September 2006. Current income tax increased to US\$ 2,301 million for the nine months ended 30 September 2007 from US\$ 1,353 million in the nine months ended 30 September 2006, while deferred tax benefit decreased from US\$ 89 million to deferred tax expense of US\$ 894

million, primarily due to the income tax on income from Yukos bankruptcy proceeds as described above. The current income tax expense increased as explained above. Income tax for subsidiaries recently acquired from Yukos was US\$ 320 million for the nine months ended 30 September 2007 from the date of acquisition of these assets, while current income tax for these subsidiaries was US\$ 187 million and deferred income tax expense was US\$ 133 million.

Minority Interest in Subsidiaries' Earnings, Net of Tax

As discussed above under “—Development of Rosneft—Consolidation via Share Swap,” there were significant minority interests in the Company’s subsidiaries during the periods 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, net of tax, was US\$ 12 million in the third quarter of 2007 compared to US\$ 23 million in the third quarter of 2006. This decrease was primarily due to the consolidation via the Share Swap mentioned above and acquisitions of assets with a share in capital below 100%.

Minority interest in subsidiaries’ earnings, net of tax, was US\$ 15 million for the nine months ended 30 September 2007 compared to US\$ 97 million for the nine months ended 30 September 2006, mainly as a result of the consolidation via the Share Swap.

Net Income

As a result of the factors discussed above, net income increased to US\$ 1,890 million in the third quarter of 2007 from US\$ 1,051 million in the third quarter of 2006. As a percentage of total revenues, net income was 13.8% and 11.7% in third quarters of 2007 and 2006, respectively.

As a result of the factors discussed above, net income increased to US\$ 9,910 million for the nine months ended 30 September 2007 from US\$ 2,930 million for the nine months ended 30 September 2006. As a percentage of total revenues, net income was 30.3% and 11.8% in the nine months ended 30 September 2007 and 2006, respectively.

Liquidity and Capital Resources

Cash Flows

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

	For the three months ended 30		change	For the nine months ended 30		change
	September			September		
	2007	2006		2007	2006	
	(US\$ millions)		times	(US\$ millions)		times
Net cash provided by operating activities	489	737	(1.5)	13,088	3,560	3.6
Net cash used in investing activities	(2,933)	(2,350)	(1.2)	(17,681)	(5,255)	(3.4)
Net cash provided by financing activities	945	1,433	(1.5)	5,024	1,490	3.4

Net Cash Provided by Operating Activities

Net cash provided by operating activities was US\$ 489 million in the third quarter of 2007 and US\$ 737 million in the third quarter of 2006. This decrease resulted mainly from a significant increase in working capital that was partially offset by an increase in net income. The increase in working capital resulted from an increase in accounts receivable by US\$ 2,495 million due to a US\$ 1,112 million growth in export VAT, a US\$ 515 million growth in trade receivable due to an increase in crude oil production volume and in production of petroleum products and processing, accompanied by an increase in domestic market prices, and a US\$ 151 million of other receivables from third parties (see “—Significant Acquisitions—2007—Acquisition of Yukos Assets—Rights and Receivables”), as well as from a US\$ 240 million increase in prepayments and other current assets due to an increase in prepayments for materials necessary for production and from a US\$ 124 million increase in inventory due to an increase in reserves of crude oil and petroleum products .

Net cash provided by operating activities was US\$ 13,088 million in the nine months ended 30 September 2007 and US\$ 3,560 million in the nine months ended 30 September 2006. Excluding bankruptcy proceeds, net cash provided by operating activities increased to US\$ 3,772 million in the nine months ended 30 September 2007 as a result of an increase in net income of US\$ 961 million and an increase in depreciation, depletion and amortisation charge of US\$ 1,189 million. This increase was partially offset by an increase in

working capital of US\$ 771 million, which resulted from an increase in accounts receivables by US\$ 3,953 million due to a US\$ 1,458 million increase in export VAT, a US\$ 1,493 million increase in trade receivables, made possible by increased crude oil and petroleum products production volumes and higher domestic prices, and of US\$ 531 million of other receivables from third parties (see “—Significant Acquisitions—2007—Acquisition of Yukos Assets—Rights and Receivables”), as well as from an increase in inventory of crude oil and petroleum products by US\$ 940 million.

Net Cash Used in Investing Activities

Net cash used in investing activities was US\$ 2,933 million in the third quarter of 2007 compared to US\$ 2,350 million in the third quarter of 2006. The increase mainly resulted from an increase in capital expenditures to US\$ 2,250 million in the third quarter of 2007 from US\$ 728 million in the third quarter of 2006. The increase in capital expenditures resulted from the acquisition of Yukos assets in July-August 2007 (see “—Significant Acquisitions—2007—Acquisition of Yukos Assets”) and from the acquisition of the shares of JV Antares, Oxoil Limited and LLC Rokada Market in August-September 2007 (see “—Significant Acquisitions—2007—Other Significant Acquisitions—Other Significant Acquisitions Prior to 30 September 2007”).

Net cash used in investing activities was US\$ 17,681 million in the nine months ended 30 September 2007 compared to US\$ 5,255 million in the nine months ended 30 September 2006. Net cash used in investing activities in the nine months ended 30 September 2007 included US\$ 19,075 million cash used for the acquisition of Yukos assets and other assets at auctions and US\$ 3,400 million received as an advance payment for the sale of 50% of Tomskneft. Capital expenditures accounted for US\$ 4,590 million in the nine months ended 30 September 2007 and for US\$ 3,006 million in the nine months ended 30 September 2006. The increase in capital expenditures resulted from the factors described above.

Net Cash Provided by Financing Activities

Net cash provided by financing activities was US\$ 945 million in the third quarter of 2007 compared to US\$ 1,433 million in the third quarter of 2006. The decrease in 2007 was primarily due to the US\$ 2,124 million of proceeds from a public offering of the Company shares in July 2006.

Net cash provided by financing activities was US\$ 5,024 million in the nine months ended 30 September 2007 compared to US\$ 1,490 million in the nine months ended 30 September 2006. The increase was primarily due to US\$ 24.5 billion loans provided by a syndicate of international banks, US\$ 12.0 billion of which were repaid out of Yukos bankruptcy proceeds, and refinancing. In addition, Rosneft purchased treasury stock for a total consideration of US\$ 7,521 million.

Capital Expenditures

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

	For the three months ended 30 September		% change (%)	For the nine months ended 30 September		% change (%)
	2007	2006		2007	2006	
	(US\$ millions)	(US\$ millions)		(US\$ millions)	(US\$ millions)	
Yuganskneftegaz	787	321	145.0%	1,837	1,013	81.3%
Vankorskoye field	413	89	364.0%	1,004	346	190.2%
Purneftegaz	114	18	533.3%	259	65	298.4%
Severnaya Neft	34	31	9.6%	154	84	83.3%
Tomskneft	110	0	100.0%	110	0	100.0%
Samaraneftegaz	48	0	100.0%	48	0	100.0%
Other	54	205	(73.6)%	191	366	(47.8)%
Total upstream segment	1,560	664	134.9%	3,603	1,874	92.3%
The Company	5	0	100.0%	59	15	293.3%
Tuapse refinery	18	2	800.0%	48	5	860.0%
Komsomolsk refinery	12	2	500.0%	44	3	1,366.7%
Angarsk refinery	53	—	100.0%	53	—	100.0%
Achinsk refinery	24	—	100.0%	24	—	100.0%
Syzran refinery	14	—	100.0%	14	—	100.0%
NovoKuibyshev refinery	13	—	100.0%	13	—	100.0%
Kuibyshev refinery	25	—	100.0%	25	—	100.0%
Marketing Business Units and others	143	31	361.0%	239	125	91.2%
Total downstream	307	35	777.2%	519	148	250.6%
Other activities	95	29	227.5%	128	109	17.4%
Other former Yukos assets	288	0	100.0%	288	0	100.0%
Total capital expenditures	2,250	728	209.1%	4,538	2,131	112.9%
Licence acquisition costs	47	411	(88.6)%	52	875	(94.0)%
Total capital expenditures and acquisition of licences	2,297	1,139	101.7%	4,590	3,006	52.6%

Rosneft's total capital expenditures increased by 101.7% or by US\$ 1,158 million to US\$ 2,297 million in the third quarter of 2007 compared to US\$ 1,139 million in the third quarter of 2006. This increase was primarily driven by the upstream segment, where capital expenditures increased by 134.9%, or by US\$ 896 million, accompanied by a US\$ 272 million increase in the downstream segment. The growth in the upstream segment was mainly attributable to investments in Yuganskneftegaz and the Vankorskoye field, as well as in Tomskneft and Samaraneftegaz, which Rosneft acquired in May 2007. The growth in the downstream segment was mainly attributable to the former Yukos refineries that Rosneft acquired in May 2007, the Angarsk, Achinsk, Syzran, Kuibyshev and Novokuibyshev refineries.

Rosneft's total capital expenditures increased by 52.6% or by US\$ 1,584 million to US\$ 4,590 million in the nine months ended 30 September 2007 compared to US\$ 3,006 million in the nine months ended 30 September 2006. This increase was primarily driven by the upstream segment, where capital expenditures increased by 92.3%, or by US\$ 1,729 million, accompanied by a US\$ 371 million increase in the downstream segment. The growth in the upstream segment was mainly attributable to investments in Yuganskneftegaz and the Vankorskoye field, as well as in Tomskneft and Samaraneftegaz, which Rosneft acquired in May 2007. The growth in the downstream segment was mainly attributable to the former Yukos refineries that Rosneft acquired in May 2007, the Angarsk, Achinsk, Syzran, Kuibyshev and Novokuibyshev refineries.

Capital expenditures for other activities increased by 227%, or by US\$ 66 million, in the third quarter of 2007, compared to US\$29 million in the third quarter of 2007. The increase for other activities mainly resulted from a growth in capital expenditures of the Company's service companies, such as LLC RN-Burenie.

Capital expenditures for other activities increased by 17.4%, or by US\$ 19 million, in the nine months ended 30 September 2007, compared to US\$ 109 million in the nine months ended 30 September 2006. The increase for other activities mainly resulted from a growth in capital expenditures of the Company's service companies, such as LLC RN-Burenie.

The total amount of capital investments relating to the assets recently acquired from Yukos were US\$ 308 million from the date of their acquisition to 30 September 2007, including US\$ 158 million in the upstream segment, US\$ 140 million in the downstream segment and US\$ 10 million in other segments.

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.”

The table below sets forth Rosneft’s planned capital expenditures by business activities for 2007 and 2008

	For the year ended 31 December			
	2007		2008	
	(U.S.\$ billions)	(%)	(U.S.\$ billions)	(%)
Upstream ⁽¹⁾	4.8	80.0%	5.5	78.6%
Downstream.....	0.7	15.0%	1.3	18.6%
Other.....	0.5	5.0%	0.2	2.8%
Total capital expenditures	6.0	100%	7.0	100%

(1) Capital expenditures for the Vankor-Pur-Pe pipeline are included as upstream capital expenditures.

Debt Obligations

Over the past few years, Rosneft has raised significant amounts of funds through net additional short-term debt and long-term loans to supplement the net cash generated by Rosneft’s operating activities. These funds have been used to fund the capital expenditures required to develop Rosneft’s upstream and downstream operations and to purchase new 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 US\$ 30,264 million as of 30 September 2007 from US\$ 13,324 million as of 31 December 2006, including Tomskneft’s borrowings of US\$ 1,477 million included in liability related to assets held for sale. In March-May 2007, Rosneft drew US\$ 24.5 billion of bridge loans to participate in auctions for the sales of Yukos assets and general corporate purposes.

Rosneft’s strategy has been to finance its growth primarily with long-term borrowings, which are predominantly denominated in US dollars. Rosneft’s long-term borrowings (excluding the current portion of long-term debt) increased to US\$ 9,493 million as of 30 September 2007, including Tomskneft’s long-term borrowings of US\$ 3 million, from US\$ 7,402 million as of 31 December 2006. The weighted average rate of interest on Rosneft’s long-term loans denominated in US dollars was 5.73% and 5.96% per annum (LIBOR plus 0.61% and LIBOR plus 0.64%) as of 30 September 2007 and 31 December 2006, respectively.

In May 2007, the Company signed a loan agreement with a syndicate of international banks for US\$ 2 billion with a term of five years and a cost of LIBOR plus 0.5% p.a. for the first three years and LIBOR plus 0.575% p.a. for the remaining two years. Additional syndication under this loan agreement resulted in an increase of the facility to US\$ 3.1 billion in July 2007. The funds raised were used to refinance part of the bridge facilities raised earlier in 2007.

As of 30 September 2007, the bank loans raised for funding the acquisition of Yuganskneftegaz represent a long-term loan obtained through a government-owned bank at a rate of LIBOR plus 0.7% per annum repayable in equal monthly instalments. It is scheduled for repayment in 2011 and is secured by pledging the Company’s receivables under a long-term contract for the supply of crude oil.

Long-term loans are generally secured by oil export contracts. Under the terms of such contracts, if the Company fails to repay debt in time, the lender is usually provided with an express right of claim for contractual revenue that must be remitted directly to US dollar denominated accounts opened with the creditor banks. [As of 30 September 2007 and 31 December 2006, 37.4% and 68.3%, respectively, of Rosneft’s borrowings were secured by crude oil export contracts (excluding export to the CIS). As of 30 September 2007 and 31 December 2006, pledged oil exports as a percentage of total crude oil export sales constituted 37.5% and 31.7%, respectively.

Rosneft's short-term borrowings (including the current portion of long-term debt) increased to US\$ 20,771 million as of 30 September 2007, including Tomskneft's short-term borrowings of US\$ 1,474 million, from US\$ 6,427 million as of 31 December 2006. US dollar-denominated short-term loans represent loans received from a consortium of international banks, bearing interest at LIBOR plus 0.45% per annum, and inter-bank loans entered into by the Company's subsidiary bank VBRR, bearing interest at LIBOR plus 0.88% to 3.0% per annum. As of 30 September 2007, the outstanding amount of the bridge loans raised in March-May 2007 for participation in auction for the sales of Yukos assets and general corporate purposes that was not refinanced was US\$ 12.3 billion. The loans received from the consortium of international banks were drawn to finance the acquisition of certain assets during the auctions for sales of these assets.

In June-August 2007, the Company received one-year foreign currency loans from several Russian state-controlled banks in the total amount of US\$ 1,580 million bearing interest at 6.75%-7.0% per annum. The rouble-denominated loans represent a loan from one Russian state-controlled bank in the total amount of US\$ 457 million bearing interest at 6.2% per annum and inter-bank loans raised by the Company's subsidiary bank VBRR bearing interest ranging from 7.0% to 8.5% per annum.

By 30 September 2007, the Company acquired long-term and short-term debt with an aggregate amount of approximately US\$ 3,680 million through the acquisition of Yukos assets in bankruptcy auctions starting in May 2007 and through subsequent acquisitions of Yukos assets from the winners of certain of such auctions. Certain of this acquired debt was eliminated on consolidation, leaving US\$ 3,318 million on Rosneft's balance sheet as of 30 September 2007. Of this amount, US\$ 1,477 million was included as liabilities related to assets held-for-sale, mainly in relation to Tomskneft, which will be accounted for on the equity basis following the completion of the sale of a 50% interest in December 2007. Of the remaining US\$ 1,841 million of acquired debt, US\$ 1,003 million was included in long-term debt, US\$ 838 million in short-term debt,

The acquired debt reflected in the balance sheet as of 30 September 2007 included promissory notes (face amount and interest) in the amount of US\$ 2,915 million, of which US\$ 979 million was long-term promissory notes and US\$ 1,936 million was short-term promissory notes. Of the acquired long-term promissory notes, US\$ 0.12 million was included in liabilities related to assets held-for-sale (mainly relating to Tomskneft) and the rest in long-term debt. Of the acquired short-term promissory notes, US\$ 1,248 million was included in liabilities related to assets held-for-sale (mainly relating to Tomskneft) and the rest in short-term debt. As of 30 September 2007, total short-term promissory notes included approximately US\$ 2,236 million due on demand (including promissory notes issued by Yuganskneftegaz), which, if presented and payable, could affect Rosneft's liquidity.

As discussed in Note 10 to the Interim Financial Statements, the Company is obliged to comply with a number of restrictive financial and other covenants contained within its loan agreements. Restrictive covenants include maintaining certain financial ratios. As a result of the Company's acquisition of Yuganskneftegaz in December 2004 and the resulting debt incurred and assets and liabilities, including consolidated contingent liabilities, the Company was not in compliance with various financial and other covenants of existing loan agreements as of that date. In July 2005, the creditors waived violations related to restrictive financial ratios and agreed to amend the financial ratio covenants in line with Rosneft's new structure and scope of activities. The creditors also waived other events of default arising from the breach of other covenant provisions. With effect from 1 January 2007, the creditors granted amendments to the loan agreements which remove these provisions and have included new waivers which state that the Company must:

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

These conditions also apply to certain new borrowings obtained throughout the first nine months of 2007. As of 30 September 2007, following the amendments granted effective 1 January 2007, the Company was in compliance with all restrictive financial and other covenants contained within its loan agreements.

In November 2007, Rosneft obtained waivers from its principal lenders, effective through 2 January 2009, in respect of the non-satisfaction by Tomskneft and Samaraneftgaz of two arbitral awards of the ICC International Court of Arbitration in favour of Yukos Capital S.à r.l. Rosneft also obtained in November 2007 waivers in respect of the completion of the sale of a 50% interest in Tomskneft.

The following table shows the scheduled maturities of Rosneft's long-term debt outstanding as of 30 September 2007 (excluding Tomskneft's borrowings):

	(US\$ millions)
2007	627
2008	2,925
2009	4,213
2010	2,833
2011	971
2012 and after	628
Total long-term debt	12,197

In October 2007, the Company received RUB 41.7 billion (US\$ 1.7 billion at the CBR exchange rate in effect as at 30 September 2007) of Yukos bankruptcy proceeds as a Yukos creditor.

Also in October 2007, the Company repaid US\$ 600 million of one of the short-term bridge loans received from a consortium of international banks, which were drawn to finance the acquisitions. In addition, in October 2007, the Company repaid RUB 11.4 billion (US\$ 457 million at the CBR exchange rate in effect as at 30 September 2007) of the loan from one Russian state-controlled bank.

Additionally the Company has repaid US \$570 million of matured loans during the fourth quarter of 2007.

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 30 September		For the nine months ended 30 September	
	2007	2006	2007	2006
EBITDA margin	29.5%	23.8%	28.7%	25.7%
Adjusted net income margin before minority interest	14.1%	11.2%	13.3%	12.1%
Net debt to capital employed ratio	0.54	0.44	0.54	0.44
Net debt to adjusted EBITDA ratio, annualised	1.72	1.31	2.22	1.31
Current ratio	0.57	0.84	0.57	0.84
		(US\$)		
EBITDA/bbl	21.08	14.28	18.37	14.94
EBITDA/boe	18.84	12.61	16.21	13.12
Upstream capital expenditure/bbl	5.86	5.00	4.00	2.83
Upstream capital expenditure/boe	5.24	4.41	3.53	2.48
Upstream operating expenses/bbl	3.74	2.99	3.44	2.69
Upstream operating expenses/boe	3.34	2.64	3.04	2.36
Adjusted free cash flow before interest/bbl	(7.35)	(1.58)	0.28	2.54
Adjusted free cash flow before interest/boe	(6.57)	(1.39)	0.25	2.23

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

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

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

Upstream operating expenses/bbl and upstream operating expenses/boe are calculated for any period by dividing the production and operating expenses of the upstream segment during that period by the barrels of

crude oil or barrels of oil equivalent, respectively, produced during that period. No adjustments to these measures are made to take into account the effect of changes in inventories during the period.

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

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

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

Upstream Measures

	For the three months ended 30 September		For the nine months ended 30 September	
	2007	2006	2007	2006
Upstream capital expenditures ⁽¹⁾ (US\$ millions)	1,560	664	3,603	1,874
Upstream operating expenses (US\$ millions)	719	445	1,762	1,152
Barrels of crude oil produced (millions)	192.35	148.88	511.62	427.67
Barrels of oil equivalent produced (millions)	215.21	168.61	579.84	487.19

(1) Excluding licence acquisition costs.

Calculation of Adjusted Free Cash Flow before Interest

	For the three months ended 30 September		For the nine months ended 30 September	
	2007	2006	2007	2006
	(US\$ millions)			
Net cash provided by operating activities	489	737	13,088	3,560
Capital expenditures ⁽¹⁾	(2,250)	(728)	(4,538)	(2,131)
Free cash flow	(1,761)	9	8,550	1,429
License acquisition costs	(47)	(411)	(52)	(875)
Net proceeds from Yukos bankruptcy	-	-	(9,316)	-
Cash interest payments ⁽²⁾	394	167	963	532
Adjusted free cash flow before interest	(1,414)	(235)	145	1,086

(1) Excluding licence acquisition costs.

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

Calculation of EBITDA Margin

	For the three months ended 30 September		For the nine months ended 30 September	
	2007	2006	2007	2006
	(US\$ millions, except %)			
Net income	1,890	1,051	9,910	2,930
Minority interest in subsidiaries' earnings	12	23	15	97
Income tax expense	574	445	3,195	1,264
Total other (income)/expenses	627	229	(6,560)	852
Operating income	3,103	1,748	6,560	5,143
Interest accrued in relation to Yuganskneftegaz tax liabilities for 1999-2004	31	(75)	373	(13)
Accretion expense ⁽¹⁾	19	9	42	25
Depreciation, depletion and amortisation	901	444	2,424	1,236

Adjusted EBITDA	4,054	2,126	9,399	6,391
Total revenues	13,742	8,951	32,747	24,880
Adjusted EBITDA margin	29.5%	23.8%	28.7%	25.7%

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

Calculation of Adjusted Net Income Margin before Minority Interest

	For the three months ended 30 September		For the nine months ended 30 September	
	2007	2006	2007	2006
	(US\$ millions, except %)			
Net income	1,890	1,051	9,910	2,930
Minority interest in subsidiaries' earnings	12	23	15	97
Interest accrued in relation to Yuganskneftegaz tax liabilities for 1999-2004	38	(75)	437	(13)
Income from Yukos bankruptcy proceeds	-	-	(7,920)	-
Income tax from Yukos bankruptcy proceeds	-	-	1,901	-
Adjusted net income before minority interest in subsidiaries' earnings	1,940	999	4,343	3,014
Sales revenues	13,742	8,951	32,747	24,880
Adjusted net income margin before minority interest in subsidiaries' earnings	14.1%	11.2%	13.3%	12.1%

Calculation of Capital Employed and Related Indicators

	For the nine months ended 30 September	
	2007	2006
	(US\$ millions)	
Short-term loans and current portion of long-term debt	19,297	4,128
Long-term debt	9,490	7,998
Cash and cash equivalents	(955)	(991)
Net debt	27,832	11,135
Shareholders' equity	23,744	12,063
Minority interest in subsidiaries' earnings	263	1,865
Equity	24,007	13,928
Capital employed	51,839	25,063
Average equity, including minority interest⁽¹⁾	23,054	11,611
Average capital employed	43,632	22,693

(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.