



ROSNEFT

O I L C O M P A N Y

OPEN JOINT STOCK COMPANY

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 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 June 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.*

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 0.96 billion boe, including 0.87 billion barrels of crude oil (0.12 billion tonnes) and 14.91 bcm of gas, and proved and probable reserves of 1.50 billion boe, including 1.35 billion barrels of crude oil (0.18 billion tonnes) and 25.29 bcm of gas. In late June 2007, Rosneft agreed to sell 50% of Tomskneft. Rosneft will account for Tomskneft using the equity method going forward from the date of sale. In the second quarter of 2007 and in the first half of 2007, Tomskneft was fully consolidated into Rosneft's income statement 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 June 2007.

Rosneft produced 1,649.77 thousand barrels of crude oil per day (23.42 million tonnes per quarter) during the second quarter of 2007 and 1,646.90 thousand barrels of crude oil per day (43.65 million tonnes per six months) during the first half of 2007. In the second quarter of 2007 and in the first half of 2007, Rosneft sold approximately 57% and approximately 61%, respectively, of the crude oil it produced or purchased from third parties to customers outside Russia, comprising both sales to CIS countries and exports to international markets other than the CIS. Most of the remainder was refined in Russia at Rosneft's 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\$ 10,785 million in the second quarter of 2007 from US\$ 8,602 million in the second quarter of 2006 and to US\$ 19,005 million in the first half of 2007 from US\$ 15,929 million in the first half of 2006. These increases resulted primarily from increases in sales volumes resulting mainly the acquisition of Yukos assets in April-June 2007. Rosneft's net income increased to US\$ 7,655 million in the second quarter of 2007 from US\$ 1,077 million in the second quarter of 2006 and to US\$ 8,013 million in the first half of 2007 from US\$ 1,879 million in the first half of 2006 as a result of increased production, improved margins and of the income arising from Yukos bankruptcy proceeds (net of income tax) of US\$ 6.02 billion received by Rosneft in June 2007. Rosneft's net income adjusted for Yukos bankruptcy proceeds and interest accrued in relation to Yuganskneftgaz tax liabilities for 1999-2004 was US\$ 1,657 million in the second quarter of 2007 and US\$ 2,347 million in the first half of 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 producing subsidiaries, part of which it sells in and outside Russia and the remainder of which it delivers to its proprietary or third-party refineries in Russia for processing. Petroleum products are then either sold by the holding company through wholesale sales in the international or domestic markets or sold to the Company’s marketing and transshipment Business Units (as defined below) and subsidiaries for subsequent wholesale and retail sale in Russia. Following the Share Swap (as defined below), the Company became the producer and owner of the crude oil previously produced by the subsidiaries that were merged into it.

It is difficult to determine market prices for crude oil in the Russian domestic market, mainly due to the significant intragroup turnover within the vertically integrated oil companies that dominate the market. Moreover, to the extent they exist, crude oil market prices in Russia can be significantly lower than they might otherwise be due to seasonal oversupply and regional imbalances. Prior to the share swap (the “**Share Swap**”) (see “—Development of Rosneft—Consolidation via Share Swap” below) 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, OJSC Yuganskneftegaz (“**Yuganskneftegaz**”), OJSC Purneftegaz, OJSC Selkupneftegaz, OJSC Severnaya Neft, OJSC Krasnodarneftegaz, OJSC Stavropolneftegaz, OJSC Sakhalinmorneftegaz, OJSC Komsomolsky Refinery, OJSC Tuapsinsky Refinery, OJSC Arkhangelsknefteprodukt, OJSC Nakhodkanefteprodukt and OJSC Tuapsenefteprodukt (the “**Merged Subsidiaries**”) were merged into the Company by means of 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, and Company shares, 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 and Company shares it acquired in the auctions and thereafter and borrowed approximately US\$ 22.0 billion to help finance these acquisitions. In addition, Rosneft received approximately US\$ 9.7 billion in June 2007 as a Yukos creditor and 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 is included within the accounts receivable in Rosneft's Interim Financial Statements. The Tomskneft disposition advance payment proceeds were used by Rosneft to help finance the acquisition of Yukos assets and the Yukos bankruptcy proceeds have been used to reduce the US\$ 22.0 billion in Company borrowings referred to above as well as other borrowings.

Purchase of Yukos Assets Prior to 30 June 2007

Rosneft paid approximately RUB 645.8 billion (US\$ 25.1 billion) in aggregate for the Yukos assets and Company shares it acquired in the auctions and thereafter prior to 30 June 2007. For the purposes of Rosneft's Interim Financial statements, the acquisition price was allocated to the standalone fair values of assets acquired and liabilities assumed in the total aggregate amount of US\$ 19.6 billion. Based on the preliminary allocation of the acquisition price, total goodwill in the amount of US\$ 5.5 billion is attributed primarily to the downstream segment (US\$ 3.6 billion), as well as to the upstream segment (US\$ 1.9 billion), both of which Rosneft expects will benefit from synergies resulting from the acquisitions.

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\$ 136 million at the Central Bank of Russia ("**CBR**") exchange rate in effect as at the date of the auction) from Yukos for a total consideration of RUB 197.84 billion (US\$ 7.59 billion at the CBR exchange rate in effect as at the date of the auction). 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 194.45 billion for the Company's shares, or RUB 194.45 per share (US\$ 7.46 billion, or US\$ 7.46 per share, at the CBR exchange rate in effect as at the date of the auction). Title to the shares and promissory notes was transferred to RN-Razvitie on 17 April 2007.

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 auction).

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 auction). In late June 2007, Rosneft agreed to sell 50% interest of one of these assets, Tomskneft.

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 auction).

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 auction).

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).

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. Rosneft purchased these assets for a total consideration of RUB 87.56 billion (US\$ 3.38 billion at the CBR exchange rate in effect as at the transaction date).

Purchase of Yukos Assets After 30 June 2007

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). Title to the acquired assets is expected to be transferred to Neft-Aktiv in the third quarter of 2007.

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 auction).

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\$ 0.73 billion at the CBR exchange rate in effect as at the date of the auction).

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 auction). The book value of the purchased assets was RUB 13.72 billion (US\$ 0.54 billion at the CBR exchange rate in effect as at the date of the auction).

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 has 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.

Other Significant Acquisitions

Other Significant Acquisitions Prior to 30 June 2007

Vlakra

In late June 2007, the Company acquired 50% of the ordinary shares of OJSC 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. 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.

CJSC Yukos-Mamontovo

On 3 April, 2007, the Company received the title to 100% interest in CJSC Yukos-Mamontovo for no consideration. The title to this asset was transferred in accordance with the court ruling adopted by the Moscow Arbitration Court. CJSC Yukos-Mamontovo is the owner of service facilities leased by RN-Yuganskneftegaz and used in crude oil production. As a result of the settlement of the claim, the Company recorded a gain of US\$60 million in other income reflecting the current assets and liabilities of CJSC Yukos-Mamontovo..

Truboprovodny Consortium Burgas-Alexandroupolis LLC

In January 2007, the Company participated in the creation of a joint venture, LLC Truboprovodny Consortium Burgas-Alexandroupolis, with equal equity contributions from the Company, OJSC AK Transneft ("Transneft") and OJSC Gazprom ("Gazprom"). This joint venture was registered with a share capital of RUB 9 million (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.

Ohinskaya TETS

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

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

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). 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") with a more than 60% share and Vostochno-Sibirskaya Gazovaya Kompaniya with a more than 11% share.

Other Significant Acquisitions After 30 June 2007

Rokada Market

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 42 gas stations and an oil tank farm in the Stavropol region.

Fuelling Stations in the Moscow Region

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

Also in August 2007, Rosneft International Limited purchased 100% of the shares of Oxoil Limited (Cyprus) for US\$ 42 million. Oxoil Limited owns through its subsidiaries a network of 13 fuelling stations in the Moscow region.

2006

Exponeft

In December 2006, the Company purchased 100% of LLC 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.

Nakhodka Oil Seatrade Port

In June 2006, the Company purchased 97.51% of the shares of Nakhodka Oil Seatrade Port (“**Nefteport**”) for RUB 528 million (US\$ 20 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. In June 2006, TNK-BP announced its decision to sell 96.86% shares of Udmurtneft to Sinopec. Sinopec completed the purchase of Udmurtneft on 10 August 2006. In November 2006, the Company and Sinopec created a joint venture, Taihu Limited (“**Taihu**”), of which the Company owns 51% through its wholly owned subsidiary, Rosneft International Ltd., and Sinopec owns 49% through its wholly owned subsidiary, Sinopec Overseas Oil and Gas Ltd. Taihu purchased 96.86% of Udmurtneft’s shares via a wholly owned subsidiary, CJSC Promleasing, in December 2006 from Sinopec. The Company accounted for this investment using the equity method from December 2006. On 13 November 2006, Bank of China provided a credit facility to Taihu in the amount of US\$ 3.6 billion for financing the purchase of the 96.86% stake in Udmurtneft and the additional 3.14% shares from minority shareholders of Udmurtneft. The cash flows of Udmurtneft will be used directly, to repay this financing.

Repayment of Carried Interest in Sakhalin-1 Joint Venture

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

On 31 July 2006, the Company repaid 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

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.

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.

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).

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

Corporate Restructuring

RN-Burenie

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

Consolidation via Share Swap

Until the autumn of 2006, the Merged Subsidiaries had significant minority interests. See “—Results of Operations—Minority Interest in Subsidiaries’ Earnings.” On 1 October 2006, the Company exchanged 1,220,939,458 newly issued ordinary shares (11.52% of the Company’s share capital) for shares of the Merged Subsidiaries held by third parties at specified exchange ratios and as approved by the respective shareholders. These subsidiaries were then merged into the Company. The Share Swap has been accounted for as a purchase. The fair value of the purchase consideration, which is the Company’s ordinary shares issued for purposes of the Share Swap, was determined based on the market value of the Company’s shares as of the closest date prior to the Share Swap and amounted to 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.

2007

Prior to 30 June 2007

Samara region

In June 2007, a subsidiary of the Company won an auction for licences for the exploration and development of two oil and gas fields in the Samara Region. The total cost of the licenses amounted to RUB 932 million (US\$ 36 million at the CBR rate as of 30 June 2007).

After 30 June 2007

Preobrazhenskiy block

In the third quarter of 2007 the Company won an auctions for the exploration and development of Preobrazhenskiy block in Irkutsk Region. The cost the license amounted to RUR 928 billion (US\$ 36 million at the CBR rate as of June 30, 2007).

Zapadno-Chonsky and Verhneichersky block

In July 2007, Vostok-Energy, a joint venture of which the Company owns 51% and CNPC owns 49%, won an auction for licences for the exploration and development of 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).

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 Kransnoyarsk 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 Kransnoyarsk territory. The Company expects to benefit from synergies arising from the development of the Kulindinsky and Sanarsky blocks. The licence was granted in November 2006 and expires in December 2031.

North Charsky Block

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

Osoveysky Block

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

Danilovsky Block

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

Mogdinsky and Sanarsky Blocks

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

East Sugdinsky Block

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

Tukolandsky, Vadinsky and 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.

Shareholder and Operating Agreement with Sinopec on Sakhalin-3

On 26 March 2007, the Company and Sinopec entered into a shareholder and operating agreement for the exploration and development of a portion of the Veninsky block on the shelf of the Sakhalin Island (Sakhalin-3 project). According to this agreement, a wholly owned subsidiary of the Company, Rosneft International Ltd., and a wholly owned subsidiary of Sinopec, Sinopec Overseas Oil and Gas Limited, will hold the shares of Venin Holding Ltd., which was established in October 2006. Venin Holding Ltd. will in turn become the sole shareholder of LLC Venineft (“**Venineft**”) and the licence owner and operator of the Sakhalin-3 project. The Company will have a 74.9% stake in the project, the remaining 25.1% being held by Sinopec.

Shareholder and Operating Agreement with KKC on West Kamchatka

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

Strategic Partnership Agreement with Gazprom

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

the levels of Rosneft's production in 2006, which was 8.45 bcm. The Strategic Partnership Agreement is effective until the end of 2015.

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

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

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 changes in export customs duty due to the impact of the time lag in setting applicable export customs duty rates.

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 June		% change	For the six months ended 30 June		% change
	2007	2006		2007	2006	
World market	(US\$ per barrel)		(%)	(US\$ per barrel)		(%)
Brent	68.84	69.62	(1.1)%	63.30	65.69	(3.6)%
Urals (average Med+NWE)	65.16	64.80	0.6%	59.73	61.50	(2.9)%
Dubai-Oman (Singapore)	64.97	65.40	(0.6)%	60.28	61.94	(2.7)%
	(US\$ per tonne)			(US\$ per tonne)		
Fuel oil 3.5% (average Med)	319.20	308.80	3.4%	287.68	296.35	(2.9)%
Gas oil 0.2% (average Med)	614.23	626.13	(1.9)%	570.02	588.93	(3.2)%
Naphtha (average Med)	647.60	586.33	10.4%	590.77	551.33	7.2%
Russian market⁽¹⁾	(US\$ per tonne)			(US\$ per tonne)		
Crude oil	268.77	281.51	(4.5)%	243.09	291.74	(16.7)%
Fuel oil	206.13	224.73	(8.3)%	168.13	213.70	(21.3)%
Diesel fuel	570.52	586.67	(2.8)%	534.23	552.49	(3.3)%
High octane gasoline	807.04	702.68	14.9%	768.99	686.15	12.1%
Low octane gasoline	651.26	588.68	10.6%	603.44	560.95	7.6%

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

(1) Including VAT of 18%.

Rosneft's gas sales have been limited to date, but the Company's strategy anticipates a significant increase in its gas business. Gazprom controls access to the UGSS, and is the predominant supplier of gas in Russia and the only exporter of gas produced in Russia. Rosneft sells the gas it produces to Gazprom from time to time and is currently in the process of negotiating a long-term agreement to secure Rosneft's access to the UGSS for gas sales to third parties and to sell additional gas to Gazprom, consistent with the Strategic Partnership Agreement entered into between the Company and Gazprom on 28 November 2006. See "—Strategic Partnership Agreement with Gazprom." The Russian government regulates the prices for the gas Gazprom sells in Russia. While the regulated price has been rising in Russia, and is expected to continue to rise to a level closer to parity with export netbacks, it is currently still significantly below world prices levels. The regulated price has affected, and is likely to continue to affect, the pricing of the gas Rosneft sells to Gazprom from time to time or pursuant to the contract it is negotiating. Rosneft's average gas sale price was RUB 653 (US\$ 25.25) per thousand cubic meters and RUB 548 (US\$ 20.14) per thousand cubic meters in the second quarters of 2007 and 2006, respectively, and it was RUB 726 (US\$ 27.85) per thousand cubic meters and RUB 569 (US\$ 20.55) per thousand cubic meters in the first half of 2007 and 2006, respectively. These prices were affected by the appreciation of the rouble over the US dollar.

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

RUB/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. See "—Quantitative and Qualitative Disclosures about Market Risk—Foreign Currency Risk".

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

Inflation and Exchange Rates

	For the three months ended 30 June		For the six months ended 30 June	
	2007	2006	2007	2006
Rouble inflation (CPI) ⁽¹⁾	2.2%	1.2%	5.7%	6.2%
Rouble/US dollar exchange rate at the beginning of the period ⁽¹⁾	26.01	27.76	26.33	28.78
Rouble/US dollar exchange rate at the end of the period ⁽¹⁾	25.82	27.08	25.82	27.08
Average rouble/US dollar exchange rate during the period ⁽¹⁾	25.86	27.20	26.08	27.68
Nominal appreciation/(depreciation) of the rouble, as calculated by Rosneft ⁽²⁾	0.7%	2.4%	1.9%	5.9%
Real appreciation/(depreciation) of the rouble, as calculated by Rosneft ⁽³⁾	3.0%	3.7%	7.8%	12.4%
Real appreciation/(depreciation) of the rouble ⁽¹⁾	1.5%	2.9%	3.8%	10.0%

(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 out the mineral production tax and export customs duty paid by Rosneft during these periods.

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

	For the three months ended 30 June		% change	For the six months ended 30 June		% change
	2007	2006		2007	2006	
Mineral production tax			(%)			(%)
Crude oil (RUB per tonne)	2,339	2,422	(3.4)%	2,121	2,312	(8.3)%
Crude oil (US\$ per barrel)	12.37	12.17	1.6%	11.12	11.42	(2.6)%
Gas (RUB per thousand cubic meters)	147	147	0.0%	147	147	0.0%
Export customs duty						
Crude oil (US\$ per tonne)	171.13	190.87	(10.5)%	175.58	178.97	(2)%
Crude oil (US\$ per barrel)	23.39	26.09	(10.3)%	24.00	24.47	(1.9)%
Light and medium distilled products (US\$ per tonne)	127.63	135.17	(5.2)%	130.62	132.20	(0.8)%
Fuel oil (US\$ per tonne)	68.90	72.83	(5.5)%	70.42	71.22	(1.4)%

Mineral Production Tax

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

In the second quarter of 2007, the rate of mineral production tax for crude oil decreased by 3.4%, primarily due to a decrease in the average rouble/US dollar exchange rate by approximately 4.9% in the three months ended 30 June 2007 as compared with the three months ended 30 June 2006.

In the first half of 2007, the rate of mineral production tax for crude oil decreased by 8.3%, primarily due to a decrease in crude oil prices by more than 2.9% and a decrease in the average rouble/US dollar exchange rate by approximately 5.8% in the first half of 2007 as compared with the first half of 2006.

Mineral production tax was US\$ 10.35 per barrel of crude oil produced and US\$ 9.17 per barrel of oil equivalent produced in the second quarter of 2007 and US\$ 11.90 and US\$ 10.51, respectively, in the second quarter of 2006.

Mineral production tax was US\$ 10.59 per barrel of crude oil produced and US\$ 9.28 per barrel of oil equivalent produced for the first half of 2007 and US\$ 11.22 and US\$ 9.83, respectively, in the first half of 2006.

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

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

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

Rosneft expect to benefit from this legislation as the Group has extensive “greenfield” interests in Eastern Siberia and has significant “brownfield” interests that are 80-99% depleted. Rosneft expects that in 2007 it will receive approximately RUB 2.14 billion (US\$ 83 million at the CBR exchange rate in effect as at 30 June 2007) in benefits as a result of this legislation. Rosneft expects this benefit to increase in the following years beyond the amount expected for 2007.

Export Customs Duty

As described in the following table, the rate of export customs duty is linked to the average Urals price in the world oil markets of North-West Europe and the Mediterranean in 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 second quarter of 2007 and 2006 and in the first half of 2007 and 2006:

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

While the average Urals prices increased to US\$ 65.2 per barrel in the second quarter of 2007 from US\$ 64.8 per barrel in the second quarter of 2006, the rate of export customs duty for crude oil decreased to US\$ 171.1 per tonne (US\$ 23.4 per barrel) in the second quarter of 2007 from US\$ 190.9 per tonne (US\$ 26.1 per barrel) in the second quarter of 2006. This difference is primarily due to the Russian government setting the rate of export customs duty every two months based on changes in the average world prices for the Urals crude oil. Effective export customs duty with respect to oil and gas sales was US\$ 20.4 per barrel of crude oil in the second 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\$ 26.1 per barrel of crude oil exported in the second quarter of 2006.

The average Urals prices decreased to US\$ 59.7 per barrel for the first half of 2007 from US\$ 61.5 per barrel for the first half of 2006, in line with the decline of the rate of export customs duty for crude oil, which decreased to US\$ 176 per tonne (US\$ 24.00 per barrel) of crude oil for the first half of 2007 from US\$ 179 per tonne (US\$ 24.47 per barrel) for the first half of 2006. Effective export customs duty with respect to oil and gas sales was US\$ 21.0 per barrel of crude oil exported in the first half of 2007, excluding the effect of export customs duty on sales to Belarus, which is significantly lower than standard export customs duty, and US\$ 24.49 per barrel of crude oil exported in the six month of 2006.

Export duties for petroleum products are established by the Russian government depending on rates of world crude oil prices. Until 1 January 2007, export duty was not payable on exports of crude oil and petroleum products to CIS countries that are members of the Customs Union, which are Belarus, Kazakhstan, Kirgiziya and Tadzhikistan. Starting from 1 January 2007, export customs duty is levied on export sales to Belarus as specified. Crude oil sales to countries that are exempt from paying export customs duty were US\$ 103 million (2.93 million barrels) in the first half of 2007 and US\$ 740 million (20.63 million barrels) in the first half of 2006.

Impact

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

For companies that pay income tax at 24% of marginal revenues, when crude oil prices are in excess of US\$ 25 per barrel, the overall marginal rate of tax for exports of crude oil outside the CIS at the average Urals price in the second quarters of 2007 and 2006 and in the first half of 2007 and 2006 was 90.08%, including the effective combined rate of mineral production tax and export customs duty of 86.95% and the rate of profits tax at 24% on US\$ 1 of marginal revenue after mineral production tax and export duty of 3.13%.

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

Changes in Transport Tariffs

Rosneft transports most of its crude oil through the pipeline network owned and operated by Transneft, a state-owned oil pipeline monopoly engaged in the transportation of crude oil in Russia and abroad. The FTS, a governmental body regulating the natural monopolies, sets annually Transneft's base tariff for the transportation of crude oil via trunk pipelines, which includes a dispatch tariff, a pumping tariff and a loading tariff. The dispatch tariff is set with respect to the entire pipeline network, and the other tariffs are set with respect to each Transneft "district" and the entry and exit points. From 1 January 2007, the FTS set the dispatch tariff at RUB 9.6778 per 100 tonne/km exclusive of VAT. The overall expense per tonne for the transport of crude oil depends on the length of the transportation route from the producing field to the ultimate destination and the number of Transneft "districts" through which the crude oil is transported. Rosneft's crude oil tariff per tonne of crude oil transported via Transneft increased by 13.3% on average in the second quarter of 2007 compared to the second quarter of 2006. Rosneft's crude oil tariff per tonne of crude oil transported via Transneft increased by 12.3% on average in the first half of 2007 compared to the first half of 2006.

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

In the second quarter of 2007 and 2006, Rosneft exported approximately 10.0% and 11.7%, respectively, of its petroleum products through the pipeline system owned and operated by OJSC AK Transnefteprodukt ("**Transnefteprodukt**"), a state-owned petroleum products pipeline monopoly, soon to become Transneft's subsidiary, engaged in the transportation of petroleum products in Russia and abroad. Rosneft exported approximately 11.0% of its petroleum products in the first half of 2007 and approximately 11.7% in the first half 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 227.3% in the second quarter of 2007 compared to the second 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 241.7% in the first half of 2007 compared to the first half 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 also depends on railway transportation, which accounted for 29.6% of its export sales of crude oil in the second quarter of 2007, including railway used in a combination of transportation means, compared to 32.6% in the second quarter of 2006, and for approximately 50.8% of its export sales of petroleum products in the second quarter of 2007 compared to 20.0% in the second quarter of 2006. In the first half of 2007, railway transportation accounted for 29.8% of the Company's export sales of crude oil, compared to 31.1% in the first half of 2006, and for approximately 52.9% of the Company's export sales of petroleum products, compared to 25.3% in the first half of 2006. 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 3.9% in the second quarter of 2007 and by 6.6% in the first half of 2007, 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 first half of 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.

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

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 right are registered with the share register or, with respect to limited liability companies, the day of the notification of the purchase agreement.

	<u>Voting shares</u>	<u>Date of ownership</u>
Exploration and production		
Tomskneft	100.00%	8 May 2007
Samaraneftegas	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 six 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 producing joint ventures, which Rosneft accounts for using the equity method. Yuganskneftgaz, Purneftegaz in Western Siberia and Severnaya Neft in Timano-Pechora are Rosneft's most important production and development Business Units, collectively accounting for 79.6% in the second quarter of 2007 and for 84.9% in the first half of 2007. Yuganskneftgaz accounted for 62.1% and 65.9%, Purneftegaz for 9.8% and 10.6% and Severnaya Neft for 5.9% and 6.4% of Rosneft's production in the second quarter of 2007 and in the first half of 2007, respectively.

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

	For the three months ended 30 June		% change (%)	For the six months ended 30 June		% change (%)
	2007 (millions of barrels)	2006 (millions of barrels)		2007 (millions of barrels)	2006 (millions of barrels)	
Crude oil production by Business Units and fully and proportionately consolidated subsidiaries ⁽¹⁾	171.35	141.52	21.1%	319.27	277.63	15.0%
Crude oil production, as above, plus the share in production of joint ventures ⁽²⁾	177.95	142.66	24.7%	332.33	279.96	18.7%

(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 and of 2.07% Russian government share**.

(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 Samaraneftgaz and Tomskneft, by 6.1%, to 150.09 million barrels in the second quarter of 2007 from 141.52 million barrels in the second 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 106.46 million barrels in the second quarter of 2007 from 100.26 million barrels in the second quarter of 2006, or by 6.2%. The Company's net *pro rata* share of oil produced under the Sakhalin-1 PSA was 3.77 million barrels in the second quarter of 2007.

The first half of 2007, Rosneft increased its production of crude oil, excluding production by Samaraneftgaz and Tomskneft, by 7.3%, to 298.01 million barrels compared with 277.63 million barrels in the first half quarter of 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 196.47 million barrels in the first half of 2006, to 210.44 million barrels in the first half of 2007, or by 7.1%. The Company's net *pro rata* share of oil produced under the Sakhalin-1 PSA was 7.34 million barrels in the first half of 2007.

Tomskneft and Samaraneftgaz, which Rosneft acquired in May 2007 and which are fully consolidated from the date of acquisition,, collectively contributed 21.26 million barrels to Rosneft's crude oil production from the day of their acquisition in May 2007 to 30 June 2007 Tomskneft and Samaraneftgaz increase Rosneft's crude oil production by 21.1% to 171.35 million barrels in the second quarter of 2007 and by 15.0% to 319.27 million barrels in the first half of 2007.

Daily crude oil production in the second quarter of 2007, excluding production by Samaraneftgaz and Tomskneft, was 1,649.36 thousand barrels as compared with 1,555.17 thousand barrels in the second quarter of 2006.

Daily crude oil production in the first half of 2007, excluding production by Samaraneftgaz and Tomskneft, was 1,646.48 thousand barrels as compared with 1,533.88 thousand barrels in the first half of 2006. This growth was largely attributable to the rise in average well production rates to 109.58 barrels per day in the

first half of 2007 from 107.16 barrels per day in the first half of 2006, in particular, for newly drilled wells to 736.62 barrels per day in the first half of 2007 from 723.17 barrels per day in the first half of 2006.

Daily crude oil production of Tomskneft and Samaraneftgaz, which Rosneft acquired in May 2007 collectively contributed 417.25 thousand barrels of daily crude oil from the day of their acquisition in May 2007 to 30 June 2007.

Production of Gas

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

	For the three months ended 30 June		% change	For the three months ended 30 June		% change
	2007	2006		2007	2006	
	(bcm)		(%)	(bcm)		(%)
Gas production by Business Units and fully and proportionately consolidated subsidiaries ⁽¹⁾	3.73	3.18	17.2%	7.71	6.71	14.9%
Gas production, as above, plus the share in production of joint ventures ⁽²⁾	3.74	3.19	17.4%	7.73	6.72	15.0%

(1) Gas production by Business Units and subsidiaries includes Rosneft's share of gas produced under the Sakhalin-1 PSA net of 8% royalty and of a 2.07% Russian government share.

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

Rosneft's gas production, excluding production by Samaraneftgaz and Tomskneft, increased by 9.5% to 3.49 bcm in the second 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 Samaraneftgaz and Tomskneft, increased by 11.2% to 7.46 bcm in the first half of 2007, due to the growth of production in the fields in Krasnodarneftgaz and Purneftgaz Business Units. The level of associated gas utilisation was 59.3% in the first half of 2007 compared to 60.9% in the first half of 2006.

Samaraneftgaz and Tomskneft, which Rosneft acquired in May 2007 and which are fully consolidated from the day of their acquisition, collectively contributed 0.24 bcm to Rosneft's gas production from the day of their acquisition in May 2007 to 30 June 2007. Samaraneftgaz and Tomskneft increased Rosneft's gas production by 17.2% to 3.73 bcm in the second quarter of 2007 and by 14.9% to 7.71 bcm in the first half of 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”.

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 June		% change (%)	For the six months ended 30 June		% change (%)
	2007 (millions of tonnes)	2006		2007 (millions of tonnes)	2006	
Petroleum products output by Tuapse refinery, Komsomolsk refinery and mini-refineries	2.95	2.50	18%	5.95	5.20	14.4%
Petroleum products output by the Achinsk, Angarsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery ⁽¹⁾	4.84	2.97 ⁽²⁾	63.0%	8.44	6.01 ⁽²⁾	40.4%
Total	7.79	5.47	42.4%	14.39	11.21	28.4%

(1) Acquired by Rosneft in May 2007 as a result of auctions for the sale of certain Yukos assets.

(2) Rosneft-produced crude oil processed under processing contracts.

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 42.4%, to 7.79 million tonnes in the second quarter of 2007 from 5.47 million tonnes in the second 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 Samaraneftgaz and Tomskneft.

In the second quarter of 2007, the Tuapse and Komsomolsk refineries processed 22.46 million barrels (3.07 million tonnes) of Rosneft-produced crude oil, 18.2% more than in the second quarter of 2006.

In the second quarter of 2007, 38.33 million barrels (5.24 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 51.6% by the Strezhevskoy mini-refinery to 76.1% by the Angarsk refinery, yielding an aggregate 4.84 million tonnes of petroleum products in the second 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 28.4%, to 14.39 million tonnes in the first half of 2007 from 11.21 million tonnes in the first half 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 Samaraneftgaz and Tomskneft.

In the first half of 2007, the Tuapse and Komsomolsk refineries processed 44.91 million barrels (6.14 million tonnes) of Rosneft-produced crude oil, 15.8% more than in the first half of 2006. The depth of refining by the Komsomolsk refinery decreased to 60.0% in the first half of 2007 from 61.4% in the first half of 2006, and by the Tuapse Refinery to 56.2% in the first half of 2007 from 56.6% in the first half of 2006, yielding an aggregate of 6.00 million tonnes of petroleum products for the first half of 2007. The decrease in the depth of refining was due to changes in crude oil quality and in the product mix.

In the first half of 2007, 66.27 million barrels (9.06 million tonnes) million barrels 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 51.6% by the Strezhevskoy mini-refinery to 76.1% by the Angarsk refinery, yielding approximately 8.44 million tonnes of petroleum products.

In the second quarter of 2007 and in the first half of 2007, Rosneft's the Tuapse and the Komsomolsk refineries did not refine any crude oil produced by third parties. From their acquisition by Rosneft in May 2007 to 30 June 2007, the Achinsk, Angarsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery did not refine any crude oil produced by third parties.

Both the Tuapse Refineryrefinery and the Komsomolsk Refineryrefinery 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 June 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 June			% change		For the six months ended 30 June			% change	
	2007		2006		%	2007		2006		%
	US\$ millions, except %	% of total revenue	US\$ millions, except %	% of total revenue		US\$ millions, except %	% of total revenue	US\$ millions, except %	% of total revenue	
Revenues										
Oil and gas sales	7,208	66.8%	6,114	71.1%	17.9%	12,847	67.6%	11,153	70.0%	15.2%
Petroleum products and processing fees	3,377	31.3%	2,407	28.0%	40.3%	5,872	30.9%	4,626	29.0%	26.9%
Support services and other revenues	200	1.9%	81	0.9%	146.9%	286	1.5%	150	1.0%	90.7%
Total revenues	10,785	100.0%	8,602	100.0%	25.4%	19,005	100.0%	15,929	100.0%	19.3%
Cost and expenses										
Production and operating expenses	734	(6.8)%	493	(5.7)%	48.9%	1,276	(6.7)%	936	(5.9)%	36.3%
Cost of purchased oil, gas, petroleum products and refining costs	398	(3.7)%	345	(4.0)%	15.4%	878	(4.6)%	633	(4.0)%	38.7%
Selling, general and administrative expenses	273	(2.5)%	178	(2.1)%	53.4%	459	(2.4)%	320	(2.0)%	43.4%
Pipeline tariffs and transportation costs	964	(8.9)%	725	(8.4)%	33.0%	1,903	(10.0)%	1,460	(9.2)%	30.3%
Exploration expenses	47	(0.4)%	53	(0.6)%	(11.3)%	82	(0.4)%	78	(0.5)%	3.8%
Depreciation, depletion and amortisation	850	(7.9)%	408	(4.7)%	108.3%	1,523	(8.0)%	792	(5.0)%	92.3%
Accretion expense	12	(0.1)%	8	(0.1)%	50.0%	23	(0.1)%	16	(0.1)%	43.8%
Taxes other than income tax	2,319	(21.5)%	1,896	(22.0)%	22.3%	4,235	(22.3)%	3,506	(22.2)%	20.8%
Export customs duty	2,514	(23.3)%	2,629	(30.7)%	(4.4)%	5,192	(27.3)%	4,793	(30.0)%	8.3%
Total cost and expenses	8,111	(75.1)%	6,735	(78.3)%	20.4%	15,571	(81.8)%	12,534	(78.7)%	24.2%
Operating income	2,674	24.8%	1,867	21.7%	43.0%	3,434	18.1%	3,395	21.3%	1.1%
Other income/(expenses)										
Interest income	41	0.4%	22	0.3%	86.4%	78	0.4%	60	0.3%	30.0%
Interest expense	(443)	(4.1)%	(175)	(2.0)%	153.1%	(644)	(3.4)%	(381)	(2.4)%	69.0%
Loss on disposal of property, plant and equipment	(22)	(0.2)%	(13)	(0.2)%	69.2%	(34)	(0.2)%	(17)	(0.1)%	100.0%
Gain on disposal of investments	24	0.2%	(5)	(0.1)%	(580.0)%	28	0.2%	(5)	(0.0)%	(660.0)%
Income from Yukos bankruptcy proceeds	7,920	73.4%	-	0.0%		7,920	41.7%	-	-	-
Equity share in affiliates' (loss)/profits	9	0.1%	11	0.1%	(18.2)%	(2)	0.0%	19	0.1%	(110.5)%
Dividends and income from joint ventures	5	0.1%	-	-	-	6		1	(0.0)%	500.0%
Other expenses, net	(67)	(0.6)%	3	0.0%	2,333/3%	(118)	(0.6)%	(23)	(1.7)%	413.0%
Foreign exchange	16	0.2%	(118)	(1.4)%	(113.6)%	(31)	(0.2)%	(277)	(3.9)%	(88.8)%
Total other income/(expenses)	7,483	69.2%	(275)	(3.2)%	(2,821.1)%	7,203	37.9%	(623)	(3.3)%	(1,256.2)%
Income before income tax and minority interest	10,157	94.2%	1,592	18.5%	538.0%	10,637	56.0%	2,772	17.4%	283.7%
Income tax expense	(2,500)	(23.2)%	(484)	(5.6)%	416.5%	(2,621)	(13.8)%	(819)	(5.1)%	220.0%
Income before minority interest	7,657	71.0%	1,108	12.9%	591.1%	8,016	42.2%	1,953	12.3%	310.4%
Minority interest in subsidiaries' earnings	(2)	(0.0)%	(31)	(0.4)%	(93.5)%	(3)	(0.0)%	(74)	(0.5)%	(95.9)%
Net income	7,665	71.0%	1,077	12.5%	610.8%	8,013	42.2%	1,879	11.8%	326.5%

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 June		2006		% change	For the six months ended 30 June		2006		% change
	2007		2006			2007		2006		
		% of total revenue		% of total revenue	(%)	(US\$ millions, except %)	% of total revenue	(US\$ millions, except %)	% of total revenue	(%)
Crude oil										
Export	6,274	58.2%	5,704	66.3%	10.0%	11,434	60.1%	10,240	64.3%	11.7%
Europe and other directions	4,819	44.7%	4,367	50.8%	10.3%	8,750	46.0%	7,940	49.9%	10.2%
Asia	1,455	13.5%	1,337	15.5%	8.8%	2,684	14.1%	2,300	14.4%	16.7%
CIS	468	4.3%	345	4.0%	35.7%	830	4.4%	740	4.6%	12.2%
Domestic	391	3.6%	21	0.2%	1761.9%	429	2.3%	79	0.5%	443.0%
Gas	75	0.7%	44	0.5%	70.5%	154	0.8%	94	0.6%	63.8%
Total oil and gas	7,208	66.8%	6,114	71.0%	17.9%	12,847	67.6%	11,153	70.0%	15.2%
Petroleum products										
Export	1,672	15.5%	1,405	16.4%	19.0%	2,987	15.7%	2,671	16.8%	11.8%
Europe and other directions	1,042	9.7%	780	9.1%	33.6%	1,842	9.7%	1,590	10.0%	15.8%
Asia	630	5.8%	625	7.3%	0.8%	1,145	6.0%	1,081	6.8%	5.9%
CIS	62	0.6%	48	0.6%	29.2%	86	0.5%	86	0.5%	100.0%
Domestic	1,599	14.9%	954	11.1%	67.6%	2,755	14.5%	1,869	11.8%	47.5%
Wholesale	1,322	12.3%	809	9.4%	63.4%	2,297	12.1%	1,589	10.0%	44.6%
Retail	277	2.6%	145	1.7%	91.0%	458	2.4%	280	1.8%	63.9%
Refining services	44	0.5%	0	0.0%	-	44	0.2%	0	0.0%	100.0%
Total petroleum products and processing fees	3,377	31.3%	2,407	28.0%	40.3%	5,872	30.9%	4,626	29.0%	26.9%
Support services and other revenues	200	1.9%	81	0.9%	146.9%	286	1.5%	150	1.0%	90.7%
Total sales	10,785	100.0%	8,602	100.0%	25.4%	19,005	100.0%	15,929	100.0%	19.3%

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

	For the three months ended 30 June		% change		For the six months ended 30 June		% change			
	2007	2006	2007	2006	2007	2006	2007	2006		
	% of total revenue	% of total revenue	% of total revenue	% of total revenue	% of total revenue	% of total revenue	% of total revenue	% of total revenue		
(millions of barrels)										
Crude oil										
Export	98.84	53.9%	88.41	63.5%	11.8%	195.40	57.5%	169.07	61.1%	15.6%
Europe and other directions	77.53	42.3%	68.73	49.4%	12.8%	152.51	44.9%	133.15	48.1%	14.5%
Asia	21.31	11.6%	19.68	14.1%	8.3%	42.89	12.6%	35.92	13.0%	19.4%
CIS	10.26	5.6%	9.07	6.5%	13.1%	20.35	6.0%	20.63	7.5%	(1.4)%
Domestic	18.31	10.0%	0.73	0.5%	2,408.2%	19.70	5.8%	3.00	1.1%	556.7%
Total crude oil sales	127.41	69.5%	98.21	70.5%	29.7%	235.45	69.3%	192.70	69.7%	22.2%
(millions of tonnes)										
Export	13.51	53.9%	12.08	63.5%	11.8%	26.71	57.5%	23.11	61.1%	15.6%
Europe and other directions	10.60	42.3%	9.39	49.4%	12.9%	20.85	44.9%	18.20	48.1%	14.6%
Asia	2.91	11.6%	2.69	14.1%	8.2%	5.86	12.6%	4.91	13.0%	19.3%
CIS	1.41	5.6%	1.24	6.5%	12.9%	2.79	6.0%	2.82	7.5%	(1.4)%
Domestic	2.50	10.0%	0.10	0.5%	2,400.0%	2.69	5.8%	0.41	1.1%	556.1%
Total crude oil sales	17.42	69.5%	13.42	70.5%	29.8%	32.19	69.3%	26.34	69.7%	22.2%
Petroleum products										
Export	3.72	14.7%	3.23	17.0%	15.2%	7.15	15.4%	6.50	17.2%	10.0%
Europe and other directions	2.39	9.4%	1.76	9.3%	35.8%	4.55	9.8%	3.82	10.1%	19.1%
Asia	1.33	5.3%	1.47	7.7%	(9.5)%	2.60	5.6%	2.68	7.1%	(3.0)%
CIS	0.12	0.6%	0.16	0.8%	(25.0)%	0.20	0.5%	0.29	0.8%	(31.0)%
Domestic	3.79	15.2%	2.23	11.7%	70.0%	6.90	14.8%	4.66	12.3%	48.1%
Wholesale	3.40	13.6%	1.95	10.2%	74.4%	6.24	13.4%	4.14	10.9%	50.7%
Retail	0.39	1.6%	0.28	1.5%	39.3%	0.66	1.4%	0.52	1.4%	26.9%
Total petroleum product sales	7.63	30.5%	5.62	29.5%	35.8%	14.25	30.7%	11.45	30.3%	24.5%
Total crude oil and petroleum product sales	25.05	100.0%	19.04	100.0%	31.6%	46.44	100.0%	37.79	100.0%	22.9%
(billion bcm)										
Gas										
Sales volumes	2.97		2.19		35.6%	5.53		4.58		20.7%

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;
- 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 June				For the six months ended 30 June			
	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	63,48	464,40	64.52	472.22	58,51	428,04	60,57	443,10
Europe and other directions	62,16	454,62	63.48	464.34	57,37	419,62	59,75	437,09
Asia	68,28	500,00	67.96	497.19	62,58	458,02	64,04	468,52
CIS	45,61	334,29	38.04	278.23	40,79	298,56	35,87	262,41
Petroleum products		449,46		434.98		417,76		410,92
Europe and other directions		435,98		443.09		404,84		416,19
Asia		473,68		425.17		440,38		403,36
CIS		516,67		300.00		430,00		296,55
Average domestic prices								
Crude oil	21.35	156.40	28.77	210.00	21.78	159.48	26,33	192,68
Gas (US\$/thousand cubic meter)		25,25		20.14		27,85		20,55
Petroleum products		421.90		427.86		399,42		401,10
Wholesale		388.82		414.10		368,11		384,13
Retail		710,26		525.26		695,45		535,32

Revenues were US\$ 10,785 million in the second quarter of 2007, a 25.4% increase from US\$ 8,602 million in the second quarter of 2006. Revenues from the sale of crude oil and gas grew by 17.9%, and revenues from the sale of petroleum products by 40.3%, for the three months ended 30 June 2007 compared with the three months ended 30 June 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 21.1% increase in crude oil production and a 42.4% increase in petroleum product production during the period analysed.

Revenues were US\$ 19,005 million in the first half of 2007, a 19.3% increase from US\$ 15,929 million in the first half of 2006. Revenues from the sale of crude oil and gas grew by 15.2%, and revenues from the sale of petroleum products by 26.9%, in the first half of 2007 compared with the first half of 2006. The growth in revenues was due to increased sales volumes of crude oil and petroleum products, offset in part by a decline in average world prices. The growth in volumes was made possible by a 15.0% increase in crude oil production and a 28.4% increase in petroleum product production during the period analysed.

Crude Oil Export Sales to Non-CIS Countries

In the second quarter of 2007, crude oil export revenues from exports to non-CIS countries were US\$ 6,274 million compared to US\$ 5,704 million in the second quarter of 2006, an increase of US\$ 570 million, or 10.0%. Excluding US\$ 45 million from sales by Samaraneftegaz, the growth resulted from an 11.4% increase in sales volumes, which had a positive impact on revenues of US\$ 652 million. The growth was partially offset by a 2.0% decrease in average prices, which decreased revenues by US\$ 127 million. The price decrease was

attributable to the general decline of world prices; in particular, the average price for Urals crude oil Mediterranean fell by 0.6%.

In the first half of 2007, crude oil export revenues from exports to non-CIS countries were US\$ 11,434 million compared to US\$ 10,240 million in the first half of 2006, an increase of US\$ 1,193 million, or 11.7%. Excluding US\$ 45 million from sales by Samaraneftegaz, the growth resulted from a 15.4% increase in sales volumes, which had a positive impact on revenues of US\$ 1,572 million. The growth was partially offset by a 3.6% decrease in average prices, which decreased revenues by US\$ 424 million. The price decrease was attributable to the general decline of world prices; in particular, the average price for Urals crude oil Mediterranean fell by 2.9%.

Crude Oil Export Sales to CIS

In the second quarter of 2007, revenues from sales of crude oil to the CIS were US\$ 468 million compared to US\$ 345 million in the second quarter of 2006, an increase of US\$ 123 million, or 35.7%. A 20.1% increase in prices, which increased revenues by US\$ 80 million, was accompanied by a 12.9% increase in volumes, which had a positive impact on revenues of US\$ 43 million.

In the first half of 2007, revenues from sales of crude oil to the CIS were US\$ 830 million compared to US\$ 740 million in the first half of 2006, an increase of US\$ 90 million, or 12.2%. A 13.8% increase in prices, which would have increased revenues by US\$ 100 million, was partially offset by a 1.4% decrease in volumes, which had a negative impact on revenues of US\$ 10 million.

Crude Oil Domestic Sales

The volume of crude oil sold in Russia increased significantly in the second quarter of 2007. Domestic crude oil sales increased by US\$ 370 million to US\$ 391 million in the second quarter of 2007 as compared with the second quarter of 2006. This growth resulted from sales of Tomskneft and Samaraneftegaz, which contributed US\$ 351 million of revenues in the second quarter of 2007. Excluding these sales, the 18.6% increase in average prices, which increased revenues by US\$ 5 million, was accompanied by a 60.0% increase in volumes, which had a positive impact on revenues of US\$ 13 million.

The volume of crude oil sold in Russia increased significantly during the first half of 2007. Domestic crude oil sales increased by US\$ 350 million to US\$ 429 million in the first half of 2007 as compared with the first half of 2006. This growth resulted from sales of Tomskneft and Samaraneftegaz, which contributed US\$ 351 million of revenues in the first half of 2007. Excluding these sales, a 14.7% increase in average prices, which would have increased revenues by US\$ 10 million, was offset by a 14.1% decrease in volumes, which had a negative impact on revenues of US\$ 11 million.

Petroleum Products Export Sales to Non-CIS Countries

Revenue from the export of petroleum products to non-CIS countries was US\$ 1,672 million in the second quarter of 2007 compared to US\$ 1,405 million in the second quarter of 2006, an increase of US\$ 267 million, or 19.0%. This growth was attributable to a 15.2% increase in sales volume, which had a positive impact on revenues of US\$ 213 million, and a 3.3% increase in average prices, which increased revenues by US\$ 54 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 a slight increase in world prices; in particular, the average price for fuel oil Mediterranean rose by 3.4%.

Revenue from the export of petroleum products to non-CIS countries was US\$ 2,987 million in the first half of 2007 compared to US\$ 2,671 million in the first half of 2006, an increase of US\$ 316 million, or 11.8%. This growth was attributable to a 10.0% increase in sales volume, which had a positive impact on revenues of US\$ 267 million, accompanied by a 1.7% increase in average prices, which increased revenues by US\$ 49 million. The growth in volumes was mainly attributable to increased sales in Europe and other non-CIS countries and Asia.

Petroleum Products Export Sales to CIS Countries

In the second quarter of 2007, revenue from sales of petroleum products to the CIS were US\$ 62 million compared to US\$ 48 million in the second quarter of 2006. This growth was attributable to a 72.2% increase in average prices, which increased revenues by US\$ 26 million, partially offset by a 25.0% decrease in sales volume, which had a negative impact on revenues of US\$ 11 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”

In the first half of 2007, revenue from sales of petroleum products to the CIS were US \$ 86 million compared to US\$ 86 million in the first half of 2006. The 31.0% decrease in volumes, which had a negative impact on revenues of US\$ 27 million was totally offset by a 45.0% increase in prices, which increased revenues by US\$ 27 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

Revenue from the sale of petroleum products on the domestic market was US\$ 1,599 million in the second quarter of 2007, including US\$ 78 million from sales of petroleum products other than Rosneft-produced by marketing subsidiaries recently acquired from Yukos compared to US\$ 954 million in the second quarter of 2006, an increase of US\$ 646 million, or 67.7%. Excluding sales of subsidiaries recently acquired from Yukos, the growth in revenue from domestic sales of petroleum products was attributable to a 65.5% increase in sales volume, which had a positive impact on revenues of US\$ 625 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 offset in part by a 3.7% decrease in average prices, which had a negative impact on revenues of US\$ 58 million. The decrease in sales prices was mainly attributable to the decline in world prices of petroleum products.

Revenue from the sale of petroleum products on the domestic market was US\$ 2,756 million in the first half of 2007, including US\$ 78 million from sales of petroleum products other than Rosneft-produced by marketing subsidiaries recently acquired from Yukos, compared to US\$ 1,869 million in the first half of 2006, an increase of US\$ 887 million, or 47.5%. Excluding sales of subsidiaries recently acquired from Yukos, the growth in revenue from domestic sales of petroleum products resulted from a 45.9% increase in sales volume, which had a positive impact on revenues of US\$ 859 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 offset in part by a 1.8% decrease in average prices, which had a negative impact on revenues of US\$ 50 million. The decrease in sales prices was mainly attributable to the decline in world prices of petroleum products.

Gas Sales

Revenue from the sale of gas was US\$ 75 million in the second quarter of 2007, including US\$ 5 million from sales of subsidiaries recently acquired from Yukos, compared to US\$ 44 million in the second quarter of 2006, an increase of US\$ 31 million, or 70.5%. Excluding sales of subsidiaries recently acquired from Yukos, the growth was attributable to a 27.2% increase in prices, which increased revenues by US\$ 15 million, accompanied by a 25.6% increase in sales volume, from 2.19 bcm to 2.75 bcm, which had a positive impact on revenues of US\$ 11 million.

Revenue from the sale of gas was US\$ 154 million in the first half of 2007, including US\$ 5 million from sales of subsidiaries recently acquired from Yukos, compared to US\$ 94 million in the first half of 2006, an increase of US\$ 60 million, or 63.8%. Excluding sales of subsidiaries recently acquired from Yukos, the growth was attributable to a 36.8% increase in prices, which increased revenues by US\$ 40 million, and a 16.0% growth in sales volume, from 4.58 bcm to 5.31 bcm, which had a positive impact on revenues of US\$ 15 million.

Support Services and Other Revenues

Support services and other revenues were US\$ 200 million in the second quarter of 2007, including US\$ 96 million from revenues of subsidiaries recently acquired from Yukos, 146.9% higher than US\$ 81 million in the second 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\$ 286 million in the first half of 2007, including US\$ 96 million from revenues of subsidiaries recently acquired from Yukos, 90.7% higher than US\$ 150 million in the first half 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.

Costs and Expenses

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

	For the three months ended 30 June			% change (%)	For the six months ended 30 June			% change (%)		
	2007	2006			2007	2006				
	% of total revenue (US\$ millions, except %)	% of total revenue			% of total revenue (US\$ millions, except %)	% of total revenue				
Production and operating expenses	734	6.8%	493	5.7%	48.90%	1,276	6.7%	936	5.9%	36.30%
Cost of purchased oil, gas, petroleum products and refinery costs	398	43.7%	345	3.8%	15.40%	878	4.6%	633	3.8%	38.7
Selling, general and administrative expenses	273	2.5%	178	2.1%	53.40%	459	2.4%	320	2.0%	43.40%
Pipeline tariffs and transportation costs	964	8.9%	725	8.4%	33.00%	1,903	10.0%	1,460	9.2%	30.30%
Exploration expenses	47	0.4%	53	0.6%	-11.30%	82	0.4%	78	0.5%	3.80%
Depreciation, depletion and amortisation	850	7.9%	408	4.7%	108.30%	1,523	8.0%	792	5.0%	92.30%
Accretion expense ⁽¹⁾	12	0.1%	8	0.1%	50.00%	23	0.1%	16	0.1%	43.80%
Taxes other than income tax	2,319	21.5%	1,896	22.4%	22.30%	4,235	22.3%	3,506	22.2%	20.80%
Export customs duty	2,514	23.3%	2,629	30.5%	-4.40%	5,192	27.3%	4,793	30.0%	8.30%
Total costs and expenses	8,111	75.2%	6,735	78.3%	20.40%	15,571	81.9%	12,534	78.7%	24.20%

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

Costs and expenses were US\$ 8,111 million in the second quarter of 2007, 20.4% higher than US\$ 6,735 million in the second 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 of 10.5% in the second quarter of 2007 as compared to the second quarter of 2006, according to the CBR. Costs and expenses accounted for 75.2% and 78.3% of Rosneft's total revenues in the second quarter of 2007 and 2006, respectively. Costs and expenses excluding export customs duties and taxes other than income tax accounted for 30.4% and 25.4% of Rosneft's total revenues in the second quarter of 2007 and 2006, respectively.

Costs and expenses were US\$ 15,571 million in the first half of 2007, 24.2% higher than US\$ 12,534 million in the first half 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 of 10.5% in the first half of 2007 as compared to the first half of 2006, according to the CBR. Costs and expenses accounted for 81.9% and 78.7% of Rosneft's total revenues in the first half of 2007 and 2006, respectively. Costs and expenses excluding export customs duties and taxes other than income tax accounted for 32.3% and 26.6% of Rosneft's total revenues in the first half of 2007 and 2006, respectively.

Production and Operating Expenses

In the second quarter of 2007, production and operating expenses were US\$ 734 million compared to US\$ 493 million in the second quarter of 2006, a 48.9% increase. The main contributors, excluding the real appreciation of the rouble of 10.5%, were US\$ 204 million operating expenses of subsidiaries recently acquired from Yukos.

In the first half of 2007, production and operating expenses were US\$ 1,276 million compared to US\$ 936 million in the first half of 2006, a 36.3% increase. The main contributors, excluding the real

appreciation of the rouble of 10.5%, were US\$ 204 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 first half of 2007, as compared with the first half of 2006, due to abnormally low temperatures in the beginning of 2006.

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

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\$ 564 million and US\$ 130 million, respectively, in the second quarter of 2007 and US\$ 392 million and US\$ 44 million, respectively, in the second quarter of 2006. Other activities' operating expenses accounted for US\$ 40 million in the second quarter of 2007 and US\$ 57 million in the second quarter of 2006.

Of the total production and operating expenses, the upstream and downstream segments accounted for US\$ 1,043 million and US\$ 175 million, respectively, in the first half of 2007 and US\$ 707 million and US\$ 162 million, respectively, in the first half of 2006. Other activities' operating expenses accounted for US\$ 58 million in the first half of 2007 and US\$ 67 million in the first half of 2006.

Upstream production and operating expenses were US\$ 564 million in the second quarter of 2007, or US\$ 3.29 per barrel of crude oil produced and US\$ 2.92 per barrel of oil equivalent produced. These expenses were US\$ 392 million in the second quarter of 2006, or US\$ 2.77 per barrel of crude oil produced and US\$ 2.44 per barrel of oil equivalent produced. Upstream production and operating expenses in the second quarter of 2007, net of Sakhalin-1 costs and costs of upstream subsidiaries recently acquired from Yukos, were US\$ 3.03 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 and increase in electricity expense.

Upstream production and operating expenses were US\$ 1,043 million in the first half of 2007, or US\$ 3.27 per barrel of crude oil produced and US\$ 2.86 per barrel of oil equivalent produced. These expenses were US\$ 707 million in the first half of 2006, or US\$ 2.55 per barrel of crude oil produced and US\$ 2.23 per barrel of oil equivalent produced. Upstream production and operating expenses in the first half of 2007, net of Sakhalin-1 costs and costs of upstream subsidiaries recently acquired from Yukos, were US\$ 3.02 per barrel of crude oil produced and USD 2.54 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 and increase in electricity expense.

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

	For the three months ended 30 June		% change (%)	For the six months ended 30 June		% change (%)
	2007	2006		2007	2006	
Refining costs for owned refineries (Komsomolsk and Tuapse refineries) (US\$ millions)	29	22	32.4%	55	40	37.5%
Throughput at Rosneft-owned refineries (Rosneft's crude oil) (millions of tonnes)	3.07	2.60	18.2%	6.14	5.31	15.8%
Refining cost per tonne (US\$)	9.29	8.29	12.0%	8.95	7.54	18.7%

The main contributors to the growth of refining cost per tonne, excluding rouble appreciation of 10.5%, were increased rent expense and costs incurred in relation to new equipment put into use at the end of 2006.

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

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

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

	For the three months ended 30 June		% change (%)	For the six months ended 30 June		% change (%)
	2007	2006		2007	2006	
Refinery fees paid to the Angarsk, Achinsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery (US\$ millions)	198	141.00	49.6%	352 ⁽³⁾	246	43.1%
Rosneft crude oil throughput at third-party refineries (millions of tonnes)	5.24	3.11	68.5%	9.06	6.36	42.5%
Refining fees per tonne (US\$)	37.72	45.34	(16.8)%	38.80	38.68	0.3%
Cost of procurement of gas (US\$ millions)	7.76	-	-	17.76	-	-
Procurement of gas (bcm)	0.22	-	-	0.52	-	-
Cost of procurement of petroleum products from third parties by the downstream segment ⁽¹⁾ (US\$ millions)	72	118	(39.0)%	130 ⁽⁴⁾	217	(40.1)%
Procurement of petroleum products from third parties by the downstream segment ⁽¹⁾ (millions of tonnes)	0.18	0.19	(5.3)%	0.33	0.43	(23.3)%
Cost of procurement of crude oil from third parties by the downstream segment ⁽²⁾ (US\$ millions)	235	86.00	170.0%	493	170	189.9%
Procurement of crude oil from third parties by the downstream segment ⁽²⁾ (millions of barrels)	11.06	3.05	262.6%	22.06	5.85	277.1%

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

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

(3) 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 selling, general and administrative costs. Refinery fees included in operating expenses were US\$ 138 million in the second quarter of 2007 and in the first half of 2007.

(4) Excluding cost of procurement of petroleum products from third parties of downstream subsidiaries recently acquired by Rosneft from Yukos, amounting to US\$ 41 million from the date of purchase to 30 June 2007.

In the second quarter of 2007, cost of purchased crude oil, petroleum products and refining costs were US\$ 398 million, a 15.4% increase from US\$ 345 million in the second quarter of 2006. The increase was mainly attributable to the crude oil purchased agreement entered into with Udmurtneft in the fourth quarter of 2006.

In the first half of 2007, cost of purchased crude oil, petroleum products and refining costs were US\$ 878 million, a 38.7% increase from US\$ 633 million in 2006. The increase was mainly attributable to the growth in domestic purchase prices of crude oil.

The cost of refining crude oil at the Angarsk, Achinsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery is high compared to that of Rosneft's other refineries. The cost of refining crude oil at Rosneft's other refineries does not include depreciation, which is reported in depreciation, depletion and amortisation, and taxes other than income tax, while these items are included in the cost of refining crude oil at the former Yukos refineries.

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 0.18 million tonnes in the second quarter of 2007 and 0.19 million tonnes in the second quarter of 2006, and it was 0.33 million tonnes in the first half of 2007 and 0.43 million tonnes in the first half of 2006.

In the second quarter of 2006 and in the first half of 2006, Rosneft purchased almost all of the crude oil (approximately 3.05 million barrels and 5.85 million barrels, respectively) produced by the Sakhalin-1 joint venture for US\$ 87 million and US\$ 170 million, respectively. Approximately 2.29 million barrels of crude oil and approximately 4.39 million barrels of crude oil were supplied in the second quarter of 2006 and in the first half of 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 11.06 million barrels accounting for US\$ 235 million in the second quarter of 2007 and in was 22.06 million barrels accounting for US\$ 493 million in the first half of 2007.

Selling, General and Administrative Expenses

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

Selling, general and administrative expenses in the second quarter of 2007 were US\$ 273 million, 53.4% higher than US\$ 178 million in the second quarter of 2006. This increase was mainly due to the selling, general and administrative expenses of subsidiaries recently acquired from Yukos of US\$ 47 million, increased salaries and bonuses and auditing and consulting services.

Selling, general and administrative expenses in the first half of 2007 were US\$ 459 million, 43.4% higher than US\$ 320 million in the first half of 2006. This increase was mainly due to the selling, general and administrative expenses of subsidiaries recently acquired from Yukos of US\$ 47 million and increased salaries and bonuses in the first half of 2007, due to an increase in the number of employees, and consulting services.

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\$ 964 million in the second quarter of 2007 from US\$ 725 million in the second quarter of 2006, a 33.0% increase mainly due to an increase in the volume of transported oil (*e.g.*, crude oil export volumes to Asia increased by 19.3%) and in the pipeline and railway tariffs of natural monopolies. Rosneft's crude oil export pipeline tariffs increased by 13.3% in the second quarter of 2007 compared to the second quarter of 2006. Rosneft's crude oil domestic pipeline tariffs for transportation to refineries decreased by 4.4% in the second quarter of 2007 compared to the second quarter of 2006. Rosneft's tariff per tonne of exported petroleum products transported via Transnefteprodukt increased by 227.3% in the second quarter of 2007 compared to the second quarter of 2006, due to the use of new logistical schemes and transportation routes (Ventpils and Bryansk-Ventpils) and to the rouble appreciation.

Pipeline tariffs and transportation costs grew to US\$ 1,903 million in the first half of 2007 from US\$ 1,460 million in the first half of 2006, a 30.3% increase mainly due to an increase in the volume of transported oil (*e.g.*, crude oil export volumes to Asia increased by 8.2%) and in the pipeline and railway tariffs of natural monopolies. Rosneft's crude oil export pipeline tariffs increased by 12.3% in the first half of 2007 compared to the first half of 2006. Rosneft's crude oil domestic pipeline tariffs for transportation to refineries increased by 3.7% in the first half of 2007 compared to the first half of 2006. Rosneft's tariff per tonne of exported petroleum products transported via Transnefteprodukt increased by 241.7 in the first half of 2007 compared to the first half of 2006, due to the use of new logistical schemes and transportation routes (Ventpils and Bryansk-Ventpils) and to rouble appreciation.

In the second quarter of 2007, Rosneft transported 63.9 million barrels (8.7 million tonnes) of crude oil via Transneft to domestic refineries and approximately 68.2 million barrels (9.3 million tonnes) for export sales via Transneft and CPC, compared to approximately 41.4 million barrels (5.7 million tonnes) of deliveries to domestic refineries and 66.2 million barrels (9.0 million tonnes) for export sales in the second quarter of 2006.

In the first half of 2007, Rosneft transported 104.3 million barrels (14.3 million tonnes) of crude oil via Transneft to domestic refineries and approximately 137.4 million barrels (18.8 million tonnes) for export sales via Transneft and CPC, compared to approximately 79.5 million barrels (10.9 million tonnes) of deliveries to domestic refineries and 129.8 million barrels (17.7 million tonnes) for export sales in the first half of 2006.

In the second quarter of 2007, the Company transported 2.3 million tonnes petroleum products, including 1.9 million tonnes by railroad, 0.2 million tonnes via pipelines and 0.1 million tonnes using a combination of transportation means. In the second quarter of 2006, the Company transported 1.1 million tonnes petroleum products, including 0.7 million tonnes by railroad, 0.05 million tonnes via pipelines and 0.3 million tonnes using a combination of transportation means.

In the first half of 2007, the Company transported 4.7 million tonnes petroleum products, including 3.9 million tonnes by railroad, 0.5 million tonnes via pipelines and 0.3 million tonnes using a combination of transportation means. In the first half of 2006, the Company transported 2.5 million tonnes petroleum products, including 1.7 million tonnes by railroad, 0.1 million tonnes via pipelines and 0.7 million tonnes using a combination of transportation means.

Railway domestic tariffs decreased by 1.0% and railway export tariffs increased by 3.9% in the second quarter of 2007 compared to the second quarter of 2006. Railway domestic tariffs increased by 4.9% and railway export tariffs increased by 6.6% in the first half of 2007 compared to the first half of 2006.

Exploration Expenses

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

In the second quarter of 2007, exploration expenses decreased by US\$ 6 million, or 11.3%, to US\$ 47 million from US\$ 53 million in the second quarter of 2006.

In the first half of 2007, exploration expenses increased by US\$ 4 million, or 5.1%, to US\$ 82 million from US\$ 78 million in the first half of 2006. The increase was mainly due to Yuganskneftegaz's and Vankorskoye field exploration works expenses.

Depreciation, Depletion and Amortisation

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

Depreciation, depletion and amortisation was US\$ 850 million in the second quarter of 2007 compared to US\$ 408 million in the second quarter of 2006. The 108.3% increase was mainly due to a revaluation of fixed assets as a result of the Share Swap in the fourth quarter of 2006. The increase also results from depreciation expense of approximately US\$ 164 million of subsidiaries recently acquired from Yukos. This increase was partially offset by a slight decrease in average depletion rates for oil and gas properties to 1.80% in the second quarter of 2007 from 1.84% in the second quarter of 2006.

Depreciation, depletion and amortisation was US\$ 1,523 million in the first half of 2007 compared to US\$ 792 million in the first half of 2006. The 92.3% 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 first half of 2007 compared to the first half of 2006. This increase was partially offset by a decrease in average depletion rates for oil and gas properties to 3.2% in the first half of 2007 from 3.3% in the first half of 2006.

Taxes Other than Income Tax

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

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

	For the three months ended 30 June		% change	For the six months ended 30 June		% change
	2007	2006	(%)	2007	2006	(%)
	(million US\$)			(million US\$)		
Mineral production tax	1,921	1,684	14.1%	3,575	3,116	14.7%
Excise tax	169	71	137.9%	311	153	103.2%
Social security	55	51	8.5%	103	86	19.8%
Property tax	45	7	544.4%	83	30	176.7%
Land tax	1	2	-25.0%	3	4	-25.0%
Other taxes and payments	160	81	97.5%	127	117	9.5%
Total taxes other than income tax	2,319	1,896	22.3%	4,235	3,506	20.8%

Taxes other than income tax increased by 22.3% to US\$ 2,319 million in the second quarter of 2007, compared to US\$ 1,896 million in the second quarter of 2006. The growth in taxes resulted mainly from taxes other than income tax of US\$ 320 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.

Taxes other than income tax increased by 20.8% in the first half of 2007 to US\$ 4,235 million, compared to US\$ 3,506 million in the first half of 2006. The growth in taxes resulted mainly from taxes other than income tax of US\$ 320 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.

In May 2007, Rosneft was included in the Russian Government's list of strategic enterprises and organisations. See "Rosneft—History." As a strategic enterprise, Rosneft is eligible to restructure its tax debt to the federal budget. The Company currently has US\$ 1,270 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 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\$ 399 million, including US\$ 342 million of interest on taxes other than income tax and US\$ 57 million of interest on income tax, was recognised in the first half of 2007, representing interest the accrual of which was suspended in that period as well as in prior periods.

The Company intends to take all necessary steps to comply with the requirements of the tax restructuring plan, which is expected to be approved by the Russian Government before the end of 2007.

The total amount of interest and penalties payable in respect of the US\$ 1,270 million Yuganskneftegaz' tax debt amounted to US\$ 902 million as of 30 June 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 U.S. GAAP.

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 June		% change	For the six months ended 30 June		% change
	2007	2006		2007	2006	
	(US\$ millions)		(%)	(US\$ millions)		(%)
Export duty for crude oil	2,163	2,306	(6.3)%	4,475	4,140	8.1%
Export duty for petroleum products	351	323	9.3%	717	653	10.0%
Total export customs duties	2,514	2,629	(4.4)%	5,192	4,793	8.3%

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

	For the three months ended 30 June		For the six months ended 30 June	
	2007	2006	2007	2006
	(US\$ per barrel, except %)		(US\$ per barrel, except %)	
Average Urals price	65.2	64.8	59.7	61.5
Customs duty as defined in customs legislation	30.1	29.9	26.6	27.7
Average price of crude oil sold by Rosneft to non-CIS Countries	63.48	64.52	58.51	60.57
Export customs duty as % of average Urals prices as calculated	46%	46%	45%	45%
	(US\$ million, except %)		(US\$ million, except %)	
Crude oil customs duties ⁽¹⁾	2,163.0	2,306	4,475	4,140
Crude oil export sales ⁽²⁾	6,742.0	5,704	12,263	10,240
Export customs duty as % of crude oil export sales ⁽²⁾	32%	40%	36%	40%

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

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

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

In the second quarter of 2007 and in the first half of 2007, export customs duty remained unchanged as a percentage of average Urals prices, compared to the second quarter of 2006 and to the first half of 2006, respectively, while it decreased as a percentage of crude oil export sales.

Export customs duties were US\$ 2,514 million in the second quarter of 2007 compared to US\$ 2,629 million in the second quarter of 2006. The decrease resulted from the two months time lag in setting applicable export customs duty rates to reflect the price growth in the second quarter of 2007 and the price decrease in the fourth quarter of 2006 and the first quarter of 2007.

Export customs duties were US\$ 5,192 million in the first half of 2007 compared to US\$ 4,793 million in the first half of 2006. The increase resulted from a growth in export volumes to non-CIS countries of 15.6% for crude oil and 10.0% for petroleum products, and an increase in tariffs of export customs duties in the range of 3.3-7.7%, depending on the type of hydrocarbons. The increase also resulted from the introduction of export duty on crude oil exported from the Russian Federation to Belarus and export duties of US\$ 20 million of the subsidiaries recently acquired from Yukos.

Operating Income

As a result of the factors discussed above, operating income increased by 43.2% in the second quarter of 2007 compared to the second quarter 2006. As a percentage of total revenues, operating income was 24.8% and 21.7% in the second quarters of 2007 and 2006, respectively. As a percentage of revenues operating income before taxes other than income tax and export customs duty was 69.6% and 74.3% in the second quarters of 2007 and 2006, respectively.

As a result of the factors discussed above, operating income increased by 1.1% for the first half of 2007 compared to the first half 2006. As a percentage of total revenues, operating income was 18.1% and 21.3% in the first half of 2007 and 2006, respectively. As a percentage of revenues operating income before taxes other than income tax and export customs duty was 67.7% and 73.4% in the first half of 2007 and 2006, respectively.

Other Income/(Expenses)

Interest Income

Interest income increased by 86.4% to US\$ 41 million in the second quarter of 2007 from US\$ 22 million in the second quarter of 2006. These increases were mainly due to the growth in Rosneft's banking operations.

Interest income increased by 30.0% to US\$ 78 million in the first half of 2007 from US\$ 60 million in the first half of 2006. These increases were mainly due to the growth in Rosneft's banking operations.

Interest Expense

Interest expense increased by 153.1% to US\$ 443 million in the second quarter of 2007 compared to US\$ 175 million in the second 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 Yukos assets in the course of auctions for sales of these assets thereafter.

Interest expense increased by 69.0% to US\$ 644 million in the first half of 2007 compared to US\$ 381 million in the first half of 2006. This increase resulted from the US\$ 22.0 billion loan as described above.

Income from Yukos Bankruptcy Proceeds

In June 2007, the Company received approximately RUB 252.6 billion (US\$ 9.8 billion at the CBR exchange rate as of 30 June 2007) as a creditor in the Yukos bankruptcy. Out of this amount, US\$ 483 million was recorded in the six months ended 30 June 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.

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\$ 22 million in the second quarter of 2007, compared to a loss of US\$ 13 million in the second quarter of 2006. This increase was primarily due to a write-off of housing in Chechnya and the Russian Far East.

Rosneft disposes of property, plant and equipment from time to time. Loss on disposal of property, plant and equipment was US\$ 34 million in the first half of 2007, compared to a loss of US\$ 17 million in the first half of 2006. This increase was primarily due to a write-off of housing in Chechnya and the Russian Far East.

Other Income/(Expenses), Net

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

In the second quarter of 2007, other expenses, net, were US\$ 67 million, in comparison with US\$ 3 million in the second quarter of 2006. The increase was primarily due to the recently acquired Yukos assets and to the US\$ 60 million income related to the Company's receiving title to a 100% interest in CJSC Yukos-Mamontovo for no consideration.. “—Significant Acquisitions—Other Significant Acquisitions—Other Significant Acquisitions Prior to 30 June 2007—Yukos-Mamontovo” This income was offset by increases in social expenditures and contributions to charity.

In the first half of 2007, other expenses, net, were US\$ 118 million, in comparison with US\$ 23 million in the first half of 2006. The increase was primarily due to the reasons explained above.

Foreign Exchange Loss

Foreign exchange gain was US\$ 16 million in the second quarter of 2007 compared to US\$ 118 million loss in the second quarter of 2006. This increase resulted from the impact of a further appreciation of the rouble against the US dollar.

Foreign exchange loss was US\$ 31 million in the first half of 2007 compared to US\$ 277 million in the first half of 2006. The decrease in the foreign exchange loss resulted from the impact of a further appreciation of the rouble against the US dollar and agreements for forward sale of U.S. dollar-denominated revenue entered into by Rosneft in January 2007 in order to hedge currency risk.

Income Tax Expenses

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

	For the three months ended 30 June		For the six months ended 30 June	
	2007	2006	2007	2006
Effective income tax rate for Rosneft under US GAAP	25%	30%	25%	30%

The Company does not pay taxes based on consolidated income before taxes under Russian law. Income tax is calculated for each subsidiary based on its profits in accordance with RAR. The US GAAP effective profit tax rate was 25% in the second quarter of 2007 and in the first half of 2007, based on the projections for 2007, and 30% in the second quarter of 2006 and in the first half of 2006, based on the projections for 2006, compared to the maximum rate of 24% established by the Russian tax legislation throughout the periods analysed.

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

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

Income tax was US\$ 2,500 million in the second quarter of 2007 compared to US\$ 484 million in the second quarter of 2006. Current income tax increased from US\$ 541 million in the second quarter of 2006 to US\$ 1,352 million in the second quarter of 2007, while deferred tax benefit decreased from US\$ 57 million to deferred tax expense of US\$ 1,148 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 books for a portion of Yukos receivables, which increased the current income tax expense by more than US\$ 700 million.

Income tax was US\$ 2,621 million in the first half of 2007 compared to US\$ 819 million in the first half of 2006. Current income tax increased from US\$ 954 million in the first half of 2007 to US\$ 1,588 million in the first half of 2007, while deferred tax benefit decreased from US\$ 135 million to deferred tax expense of US\$ 1,033 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.

Minority Interest in Subsidiaries' Earnings

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

Minority interest in subsidiaries’ earnings was US\$ 2 million in the second quarter of 2007 compared to US\$ 31 million in the second quarter of 2006, mainly as a result of the consolidation via the Share Swap.

Minority interest in subsidiaries’ earnings was US\$ 3 million in the first half of 2007 compared to US\$ 74 million in the first half of 2006, mainly as a result of the consolidation via the Share Swap.

Net Income

As a result of the factors discussed above, net income increased to US\$ 7,655 million in the second quarter of 2007 from US\$ 1,077 million in the second quarter of 2006. As a percentage of total revenues, net income was 71.0% and 12.5% in the second quarters of 2007 and 2006, respectively.

As a result of the factors discussed above, net income increased to US\$ 8,013 million in the first half of 2007 from US\$ 1,879 million in the first half of 2006. As a percentage of total revenues, net income was 42.2% and 11.8% in the first half of 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 June		change times	For the six months ended 30 June		change times
	2007 (US\$ millions)	2006		2007 (US\$ millions)	2006	
Net cash provided by operating activities	11,699	1,410	8.3	12,592	2,823	4.5
Net cash used in investing activities	(13,702)	(1,399)	9.8	(14,748)	(2,905)	5.1
Net cash provided by financing activities	2,808	658	4.3	4,079	57	71.6

Net Cash Provided by Operating Activities

Net cash provided by operating activities was US\$ 11,698 million in the second quarter of 2007 and US\$ 1,410 million in the second quarter of 2006. This increase resulted from Yukos bankruptcy proceeds received by Rosneft in June 2007 as a creditor. Excluding these bankruptcy proceeds, net cash provided by operating activities increased to US\$ 2,453 million in the second quarter of 2007 as a result of an increase in net income and a US\$ 850 million increase in the depreciation, depletion and amortization charge. This increase was offset in part by a US\$ 637 million increase in the working capital. The increase in working capital was due to significant increase in accounts receivable as of 30 June 2007 compared to 31 December 2006, mainly due to an increase in trade accounts receivable to US\$ 2,154 million as of 30 June 2007 from US\$ 1,176 million as of 31 December 2006 and an increase in banking loans to customers to US\$ 626 million from US\$ 580 million in connection with loans provided by VBRR and Dalnevostochny Bank, respectively.

Net cash provided by operating activities was US\$ 12,592 million in the first half of 2007 and US\$ 2,823 million in the first half of 2006. This increase resulted from Yukos bankruptcy proceeds received by Rosneft in June 2007 as a creditor. Excluding these bankruptcy proceeds, net cash provided by operating activities increased to US\$ 3,236 million in the first half of 2007 as a result of an increase in net income the working capital and a US\$ 1,523 million increase in the depreciation, depletion and amortization charge. This increase was offset in part by a US\$ 502 million increase in the working capital. The increase in working capital was due to significant increase in accounts receivable as of 30 June 2007 compared to 31 December 2006, mainly due to an increase in trade accounts receivable to US\$ 2,154 million as of 30 June 2007 from US\$ 1,176 million as of 31 December 2006 and an increase in banking loans to customers to US\$ 626 million from US\$ 580 million in connection with loans provided by VBRR and Dalnevostochny Bank, respectively.

Net Cash Used in Investing Activities

Net cash used in investing activities was US\$ 13,702 million in the second quarter of 2007 compared to US\$ 1,399 million in the second quarter of 2006. Net cash used in investing activities in the second quarter of 2007 included US\$ 17,047 million (US\$ 16,254 million net of cash purchased) cash used for the acquisition of Yukos 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\$ 1,255 million in the second quarter of 2007, as compared with capital expenditures accounted for US\$ 813 million in the second quarter of 2006.

Net cash used in investing activities was US\$ 14,748 million in the first half of 2007 compared to US\$ 2,905 million in the first half of 2006. Net cash used in investing activities in the first half of 2007 included US\$ 17,047 (US\$ 16,254 million net of cash purchased) million cash used for the acquisition of Yukos 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\$ 2,288 million in the first half of 2007, as compared with capital expenditures accounted for US\$ 1,403 million in the first half of 2006.

Net Cash Provided by Financing Activities

Net cash provided by financing activities was US\$ 2,808 million in the second quarter of 2007 compared to US\$ 658 million in the second quarter of 2006. The increase was primarily due to US\$ 22.0 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 in March 2007 treasury stock for a total consideration of US\$ 7,537 million.

Net cash provided by financing activities was US\$ 4,079 million in the first half of 2007 compared to US\$ 57 million in the first half of 2006. The increase was primarily due to US\$ 22.0 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 in March 2007 treasury stock for a total consideration of US\$ 7,537 million.

On 22 May 2007, Rosneft's Board of Directors recommended to the annual shareholders' meeting to declare annual dividends (based on the 2006 performance results) for common stock in the amount of RUB 14,096 million or RUB 1.33 per share (US\$ 545.9 million or US\$ 0.05 per share at the CBR rate as at 30 June 2007).

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 31 June		% change (%)	For the six months ended 30 June		% change (%)
	2007 (US\$ millions)	2006 (US\$ millions)		2007 (US\$ millions)	2006 (US\$ millions)	
OJSC NK Rosneft - Yuganskneftegaz (RN- Yuganskneftegaz LLC)	593	374	58.6%	1,050	692	51.8%
Vankorskoye field	314	257	22.2%	590	257	129.3%
OJSC NK Rosneft – Purneftegaz (RN-Purneftegaz LLC)	94	11	754.5%	145	47	208.5%
OJSC NK Rosneft - Severnaya Neft (RN-Severnaya Neft LLC)	81	54	50.0%	120	84	43.0%
Other	45	48	(4.7)%	138	130	6.7%
Total upstream segment	1,128	744	51.6%	2,044	1,211	68.9%
OJSC NK Rosneft	4	0	400.0%	54	14	283.2%
OJSC NK Rosneft - Tuapse refinery (RN-Tuapse Refinery LLC)	16	3	433.3%	30	4	602.9%
OJSC NK Rosneft - Komsomolsk refinery (RN-Komsomolsky Refinery LLC)	25	1	2500.0%	32	1	2180.6%
Marketing Business Units and subsidiaries	61	72	(15.7)%	90	89	1.2%
Other	1	5	(121.6)%	7	4	78.7%
Total downstream	105	81	29.4%	213	113	89.0%
Other activities	22	77	(71.4)%	31	80	(60.8)%
Total capital expenditures	1,255	902	39.1%	2,288	1,403	63.1%
Licence acquisition costs	5	—	—	5	464	—
Total capital expenditures and acquisition of licences	1,260	902	39.7%	2,293	1,867	16.9%

Rosneft's total capital expenditures increased by 39.7% or by US\$ 358 million to US\$ 1,260 million in the second quarter of 2007 compared to US\$ 902 million in the second quarter of 2006. This increase was primarily driven by the upstream segment, where capital expenditures increased by 51.6%, or by US\$ 384 million. Upstream segment capital expenditures growth was mainly attributable to investments in Yuganskneftegaz and the Vankorskoye field.

Rosneft's total capital expenditures increased by 16.9% or by US\$ 426 million to US\$ 2,293 million in the first half of 2007 compared to US\$ 1,867 million in the first half of 2006. This increase was primarily driven by the upstream segment, where capital expenditures increased by 68.9%, or by US\$ 833 million. Upstream segment capital expenditures growth was mainly attributable to investments in Yuganskneftegaz, and the Vankorskoye field.

Downstream capital expenditures increased by 29.4%, to US\$ 105 million, in the second quarter of 2007 from US\$ 81 million in the second quarter of 2006 as a result of increased investments in the development of the Komsomolsk and Tuapse refineries and in the Company's marketing and distribution subsidiaries.

Downstream capital expenditures increased by 89.0%, to US\$ 213 million, in the second quarter of 2007 from US\$ 113 million in the second quarter of 2006 as a result of increased investments in the development of the Company's operations, as well as in the Komsomolsk and Tuapse refineries and in the Company's marketing and distribution subsidiaries.

Capital expenditures for other activities decreased by 71.4%, or by US\$ 55 million, in the second quarter of 2007, compared to US\$ 77 million in the second quarter of 2006, primarily as a result of the construction of twin-hull shuttle oil tankers in the first quarter of 2006 and purchase of office building in the second quarter of 2006.

Capital expenditures for other activities decreased by 60.8%, or by US\$ 49 million, in the first half of 2007, compared to US\$ 80 million in the first half of 2006, primarily as a result of the construction of twin-hull shuttle oil tankers in the first quarter of 2006 and purchase of office building in the second quarter of 2006.

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

Debt Obligations

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

Rosneft’s total loans and borrowings increased to US\$ 27,258 million as of 30 June 2007 from US\$ 13,829 million as of 31 December 2006. In March-May 2007, Rosneft drew US\$ 24.5 billion to participate in auctions for the sales of Yukos assets and general and 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\$ 10,172 million as of 30 June 2007 from US\$ 7,402 million as of 31 December 2006. The weighted average rate of interest on Rosneft’s long-term loans denominated in US dollars was 5.88% and 5.96% per annum (LIBOR plus 0.56% and LIBOR plus 0.64%) as of 30 June 2007 and 31 December 2006, respectively.

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

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\$ denominated accounts opened with the creditor banks. As of 30 June 2007 and 31 December 2006, 37.60% and 68.3%, respectively, of Rosneft’s borrowings were secured by crude oil export contracts (excluding export to the CIS). As of 30 June 2007 and 31 December 2006, pledged oil exports as a percentage of total crude oil export sales constituted 36.7% and 31.7%, respectively.

Rosneft’s short-term borrowings (including the current portion of long-term debt) increased to US\$ 17,086 million as of 30 June 2007 from US\$ 6,427 million as of 31 December 2006. U.S. dollar-denominated short-term loans represent loans received from a consortium of international banks, bearing interest at LIBOR plus 0.25-0.50% *per annum* depending on the final settlement date, and inter-bank loans entered into by the Company’s subsidiary bank VBRR, bearing interest at LIBOR plus 2.19% to 2.80% *per annum*. A portion of the loans from a consortium of international banks was refinanced in July 2007 by a long-term loan of US\$ 1.1 billion. As a result, part of these loans was classified as long-term. As of 30 June 2007, the outstanding amount of these loans 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. The rouble-denominated loans represent inter-bank loans raised by the Company’s subsidiary bank VBRR bearing interest ranging from 3.5% to 4.5% *per annum*.

Rosneft’s long-term borrowings and short-term borrowings as of June 30, 2007 also include promissory acquired by Rosneft through the purchase of former Yukos assets, including Yuganskneftegaz, assets acquired through auctions held in connection with Yukos’ bankruptcy proceedings and assets acquired from the winners of other Yukos auctions. A portion of these promissory notes was eliminated upon consolidation as intragroup debt and a further similar elimination is possible in the future. The amounts of promissory notes below include principal and interest.

As of 30 June 2007, Rosneft’s long-term borrowings included approximately RUB 25.4 billion (US\$ 0.98 billion) of promissory notes payable. Out of the total promissory notes acquired, RUB 424.96 million (US\$16.5 million) was eliminated upon consolidation as intragroup debt.

As of 30 June 2007, Rosneft’s short-term borrowings included promissory notes payable of approximately RUB 57.1 billion (US\$2.2 billion), including approximately RUB 30.9 billion (US\$1.2 billion) of promissory notes payable by Tomskneft. Out of the total promissory notes acquired, RUB 12.4 billion

(US\$479 million) was eliminated upon consolidation as intragroup debt. A substantial part of the promissory notes included in the short-term borrowings is due on demand, and if promissory notes are presented and are payable, accrued interest would also be due.

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 OJSC Yuganskneftegaz in December 2004 and the resulting debt incurred and assets and liabilities, including consolidated contingent liabilities, the Company was not in compliance with various financial and other covenants of existing loan agreements as of that date. In July 2005, the creditors waived violations related to restrictive financial ratios and agreed to amend the financial ratio covenants in line with Rosneft's new structure and scope of activities. The creditors also waived other events of default arising from the breach of other covenant provisions. With effect from 1 January 2007, the creditors granted amendments to the loan agreements which remove these provisions and have included new waivers which state that the Company must:

- redeem, secure, discharge in full or restructure (and comply with any restructuring plans once it is agreed upon) all Yuganskneftegaz's tax liabilities by 3 January 2008; and
- pay any arbitration award relating to the Moravel litigation or the Yukos Capital S.à.r.l. ("**Yukos Capital**") 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 half of 2007. As of 30 June 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.

The following table shows the scheduled maturities of Rosneft's long-term debt outstanding as of 30 June 2007:

	<u>(US\$ millions)</u>
2007	1,206
2008	2,845
2009	4,126
2010	2,900
2011	1,037
2012 and after	477
Total long-term debt	<u>12,591</u>

In June 2007, Rosneft repaid US\$ 8.6 billion out of a total amount of US\$ 22.0 billion borrowed from a syndicate of international banks pursuant to agreements entered into in March 2007. These loans are a mix of short- and medium-term obligations. Rosneft used the borrowed funds to purchase certain Yukos assets. To repay these funds, Rosneft used RUB 222,282 million (US\$ 8,600 million) received by the Company in June 2007 as a creditor in the Yukos bankruptcy and [RUB 25,889 million US\$ 1,1 received by the company as a long term loan from syndicate of Western banks in July 2007. See "—Significant Acquisitions—2007—Purchase of Yukos Assets."

In July 2007, the Company drew US\$ 1,098 million under a five year loan agreement with a syndicate of Western banks at LIBOR plus 0.5% per annum during the first three years and 0.575% per annum for the remaining two years. The Company used these funds to refinance a portion of short-term bridge loans from a consortium of international banks.

In August 2007, Rosneft received loans fone year loans rom two Russian banks in the amount of US\$ 330 million at 6.75% per annum and US\$ 1 billion at 7% per annum.

In September 2007, the Company drew RUR 11,4 billion (US\$ 442 million at the CBR exchange rate as of 30 June 2007) under a credit facility with Russian bank for one month

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 June		For the six months ended 30 June	
	2007	2006	2007	2006
EBITDA margin	33.2%	26.9%	28.0%	26.8%
Adjusted net income margin before minority interest	15.8%	13.2%	12.6%	12.6%
Net debt to capital employed ratio	0.53	0.51	0.53	0.51
Net debt to adjusted EBITDA ratio, annualised	1.73	1.21	2.33	1.32
Current ratio	0.56	0.86	0.56	0.76
		(US\$)		
EBITDA/bbl	20.90	16.35	16.67	15.36
EBITDA/boe	18.52	14.44	14.60	13.45
Upstream capital expenditure/bbl	6.58	5.26	6.40	4.36
Upstream capital expenditure/boe	5.83	4.64	5.61	3.82
Upstream operating expenses/bbl	3.29	2.80	3.27	2.56
Upstream operating expenses/boe	2.92	2.47	2.86	2.24
Adjusted free cash flow before interest/bbl	7.03	4.11	3.93	4.76
Adjusted free cash flow before interest/boe	6.23	3.63	3.44	4.17

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

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

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

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

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

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

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

Upstream Measures

	For the three months ended 30 June		For the six months ended 30 June	
	2007	2006	2007	2006
Upstream capital expenditures ⁽¹⁾ (US\$ millions)	1,128	744	2,044	1,211
Upstream operating expenses (US\$ millions)	564	392	1,043	707
Barrels of crude oil produced (millions)	171.35	141.52	319.27	277.63
Barrels of oil equivalent produced (millions)	193.31	160.25	364.63	317.09

(1) Does not include licence acquisition costs.

Calculation of Adjusted Free Cash Flow before Interest

	For the three months ended 30 June		For the six months ended 30 June	
	2007	2006	2007	2006
	(US\$ millions)			
Net cash provided by operating activities	11,698	1,410	12,592	2,823
Capital expenditures ⁽¹⁾	(1,255)	(813)	(2,288)	(1,403)
Free cash flow	10,443	597	10,304	1,420
License acquisition costs	(5)	(206)	(5)	(464)
Net proceeds from Yukos bankruptcy	(9,316)		(9,316)	
Cash interest payments ⁽²⁾	379	190	569	365
Adjusted free cash flow before interest	1,501	581	1,552	1,321

(1) Does not include licence acquisition costs.

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

Calculation of EBITDA Margin

	For the three months ended 30 June		For the six months ended 30 June	
	2007	2006	2007	2006
	(US\$ millions, except %)			
Net income	7,655	1,077	8,013	1,879
Minority interest in subsidiaries' earnings	2	31	3	74
Income tax expense	2,500	484	2,621	819
Total other (income)/expenses	(7,483)	275	(7,203)	623
Operating income	2,674	1,867	3,434	3,395
Interest accrued in relation to Yuganskneftegaz tax liabilities for 1999-2004	45	31	342	62
Accretion expense ⁽¹⁾	12	8	23	16
Depreciation, depletion and amortisation	850	408	1,523	792
Adjusted EBITDA	3,581	2,314	5,322	4,265
Total revenues	10,785	8,602	19,005	15,929
Adjusted EBITDA margin	33.2%	26.9%	28.0%	26.8%

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

Calculation of Adjusted Net Income Margin before Minority Interest

	For the three months ended 30 June		For the six months ended 30 June	
	2007	2006	2007	2006
	(US\$ millions, except %)			
Net income	7,655	1,077	8,013	1,879
Minority interest in subsidiaries' earnings	2	31	3	74
Interest accrued in relation to Yuganskneftegaz tax liabilities for 1999-2004	67	31	399	62
Income from Yukos bankruptcy proceeds	(7,920)	-	(7,920)	-
Income tax from Yukos bankruptcy proceeds	1,901	-	1,901	-
Adjusted net income before minority interest in subsidiaries' earnings	1,705	1,139	2,396	2,015
Sales revenues	10,785	8,602	19,005	15,929
Adjusted net income margin before minority interest in subsidiaries' earnings	15.8%	13.2%	12.6%	12.6%

Calculation of Capital Employed and Related Indicators

	For the three months ended 30 June		For the six months ended 30 June	
	2007	2006	2007	2006
	(US\$ millions)			
Short-term loans and current portion of long-term debt	17,086	3,840	17,086	3,840
Long-term debt	10,172	8,558	10,172	8,558
Cash and cash equivalents	(2,443)	(1,166)	(2,443)	(1,166)
Net debt	24,815	11,232	24,815	11,232
Shareholders' equity	21,812	8,888	21,812	8,888
Minority interest in subsidiaries' earnings	244	1,851	244	1,851
Equity	22,056	10,739	22,056	10,739
Capital employed	46,871	21,971	46,871	21,971
Average equity, including minority interest⁽¹⁾	22,078	10,016	22,078	10,016
Average capital employed	41,148	21,147	41,148	21,147

(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.