



ROSNEFT

O I L C O M P A N Y

OPEN JOINT STOCK COMPANY

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS FOR THE THREE MONTHS AND SIX MONTHS ENDED 30 JUNE 2008 AND 2007**

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 2008 and 2007 (the "Interim Financial Statements"). Such terms as "Rosneft," "Company" and "Group" in their different forms in this report mean OJSC Oil Company 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 materially differ from those discussed in such forward-looking statements as a result of various factors.

Oil and gas reserves are presented pro-rata for companies accounted for an equity basis or under the proportionate consolidation method and 100% for fully consolidated companies. Except where expressly indicated otherwise, references to crude oil and gas production include 100% of fully consolidated companies and the pro-rata share of proportionally consolidated companies. References to crude oil and gas production include the pro-rata share of equity consolidated companies, only when expressly noted.

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

Overview

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

Rosneft produced 2,116.48 thousand barrels of crude oil per day (26.33 million tonnes per quarter) in the second quarter of 2008 and 1,955.38 thousand barrels of crude oil per day (24.33 million tonnes per quarter) in the second quarter of 2007, respectively. In the six months ended 30 June 2008 and 2007, Rosneft produced 2,120.66 thousand of barrels of crude oil per day (52.76 million tonnes for the six months) and 1,836.13 thousand of barrels of crude oil per day (45.43 million tonnes for the six months), respectively. Rosneft also produced 2.85 bcm of gas and 3.74 bcm of gas in the second quarters of 2008 and 2007, respectively. For the first half of 2008 and 2007, Rosneft produced 6.25 bcm of gas and 7.73 bcm of gas, respectively.

Since 27 December 2007, Rosneft accounts for OJSC Tomskneft VNK (“**Tomskneft**”) via the equity method and 50.0% of Tomskneft production in the amount of 113.91 thousand barrels of crude oil per day (1.42 million tonnes per quarter) for the second quarter of 2008 and 114.03 thousand of barrels of crude oil per day (2.84 million tonnes for the six months) for the first half of 2008 and 0.23 bcm of gas in the second quarter of 2008 and 0.45 bcm of gas for the first half of 2008 are included in Rosneft's production. 100% of Tomskneft crude oil production was 227.8 thousand barrels of crude oil per day (2.84 million tonnes per quarter) for the second quarter of 2008 and 228.06 thousand barrels of crude oil per day (5.68 million tonnes for the six months) for the first half of 2008. 100% of Tomskneft gas production was 0.46 bcm for the second quarter of 2008 and 0.90 bcm for the first half of 2008.

In the first half of 2008 and 2007, Rosneft sold approximately 52% and 63%, respectively, of the crude oil it produced or purchased from third parties to customers outside Russia, including sales to other countries in the Commonwealth of Independent States (“**CIS**”) and exports to international markets other than the CIS. Most of the remainder was refined in Russia at Rosneft's refineries, including LLC Rosneft-Tuapse refinery (“**Tuapse refinery**”) and LLC Rosneft-Komsomolsk refinery (“**Komsomolsk refinery**”), as well as OJSC Angarsk Petrochemical Company (“**Angarsk refinery**”), OJSC Achinsk refinery (“**Achinsk refinery**”), OJSC Kuibyshev refinery (“**Kuibyshev refinery**”), OJSC NovoKuibyshevsk refinery (“**NovoKuibyshevsk refinery**”) and OJSC Syzran refinery (“**Syzran refinery**”), acquired from Yukos in the second quarter of 2007. 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\$ 21,134 million in the second quarter of 2008 from US\$ 10,785 million in the second quarter of 2007, and to US\$ 37,502 million in the first half of 2008 from US\$ 19,005 million in the first half of 2007. This increase resulted primarily from an increase in crude oil and petroleum products prices, an increase in sales volumes driven by organic production growth as well as by acquisitions, including assets acquired from Yukos, and a change in product mix, namely, an increase in the share of petroleum products.

Rosneft's net income amounted to US\$ 4,312 million in the second quarter of 2008 and US\$ 7,655 million in the second quarter of 2007, and to US\$ 6,876 million for the first half of 2008 and to US\$ 8,013 million for the first half of 2007. Net income in the second quarter of 2007 included 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 excluding Yukos bankruptcy proceeds and interest accrued in relation to OJSC Yuganskneftegaz (“**Yuganskneftegaz**”) tax liabilities for 1999-2004 was US\$ 1,703 million in the second quarter of 2007 and US\$ 2,393 million in the first half of 2007. The increase in Rosneft's net income in the

first half of 2008 compared to the net income of 2007 adjusted for Yukos bankruptcy proceeds resulted from an increase in oil prices, an increase in oil production and improved margins.

Post Balance Sheet Events

In July 2008, the Company early repaid loans received from Russian state- controlled banks in the amount of US\$ 1.0 billion. Also in July 2008, RN-Razvitie (“RN-Razvitie”), a wholly owned subsidiary of Rosneft, early repaid a portion of the last tranche of the bridge financing in the amount of US\$ 4.2 billion which was received from a consortium of international banks in 2007.

In July 2008, the Company received a syndicated 5-year loan in the amount of US\$ 2.85 billion bearing interest at the London inter-bank offered rate (“LIBOR”) plus 1.25%. The loan is secured by crude oil export contracts.

Business Segments and Intersegment Sales

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

Business Segments

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

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

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

Intersegment Sales and Segment Presentation

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

It is difficult to determine market prices for crude oil in the Russian domestic market, mainly due to the significant intragroup turnover within the vertically integrated oil companies that dominate the market. Moreover, to the extent they exist, crude oil market prices in Russia can be significantly lower than they might otherwise be due to seasonal oversupply and regional imbalances. Prior to the Share Swap in 2006, transaction prices for crude oil between Rosneft’s subsidiaries were established taking into consideration market prices and transportation costs, but were also affected to a considerable degree by the capital investment requirements of different enterprises within the upstream segment. Accordingly, an analysis of individual segments in isolation from the analysis of other activities may present a distorted view of Rosneft’s financial and operating performance. For this reason, the Company’s management does not analyse each main business segment in isolation. The Company does, however, provide financial data by segments in Note 21 to the Interim Financial Statements.

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

OJSC Arkhangel'sknefteprodukt, 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 in the First Half of 2008 and in 2007

First half of 2008

Additional number of shares of OJSC Okhinskaya TETS

In April-June 2008, the Company purchased 35,048,921 ordinary shares of OJSC Okhinskaya TETS ("Okhinskaya TETS") for RUB 367 million (US\$ 15.5 million at the CBR exchange rate in effect at the transaction date). Okhinskaya TETS is a combined heat and power plant, mainly servicing the production activities of RN-Sakhalinmorneftegaz LLC, Rosneft' wholly owned exploration and production subsidiary (See "Other significant acquisitions").

Lease rights

In January 2008, RN-Trade, a 99.99% owned subsidiary of the Company won an auction for a three-year lease right to nine land plots in Saint Petersburg for a total consideration of RUB 103 million (US\$ 4.2 million at the CBR exchange rate in effect as at the transaction date). The land plots are expected to be used for the construction of fuelling stations.

2007

Purchase of Yukos Assets

In April-August 2007, Rosneft acquired upstream, downstream and other assets of Yukos, shares and promissory notes of Yuganskneftegaz, through auctions held in connection with Yukos' bankruptcy proceedings. In June-July 2007, Rosneft also acquired further Yukos assets from the winners of other Yukos auctions. Rosneft paid approximately RUB 687.7 billion (US\$ 26.6 billion) in aggregate for the Yukos assets, Company shares and promissory notes of Yuganskneftegaz it acquired in the auctions and thereafter (including US\$ 7.65 billion (at the CBR exchange rate in effect as at the date of payment) for a 9.44% equity interest in the Company and promissory notes of Yuganskneftegaz) and borrowed approximately US\$ 22.0 billion to help finance these acquisitions. Based on the preliminary allocation of the purchase price of assets accounted for as business combinations (subject to adjustment in subsequent periods), total goodwill of US\$ 4.33 billion is attributable to the downstream segment (US\$ 2.88 billion), and to the upstream segment (US\$ 1.45 billion), both of which Rosneft expects will benefit from synergies resulting from the acquisitions.

Rosneft received approximately US\$ 11.5 billion (including proceeds received by the subsidiaries recently acquired from Yukos) in June and December 2007 as a Yukos creditor, out of which US\$ 9.2 billion has been used to repay the US\$ 22.0 billion of the Company's borrowings referred to above. Rosneft also received US\$ 3.4 billion as an advance payment following the agreement to sell 50% of Tomskneft in late June 2007. The advance payment was used by Rosneft to finance the acquisition of new assets, including Yukos assets. Rosneft reimbursed the advance payment, together with interests accrued from June 2007, on the date of the completion of the sale of 50% of Tomskneft and other related assets in December 2007.

On 27 December 2007, Rosneft sold 50% of Tomskneft and other related assets, including the Strezhevskoy mini-refinery to Gazpromneftfinance, a subsidiary of Gazpromneft, for RUB 88.2 billion (US\$ 3.4 billion at the CBR exchange rate in effect as at the transaction date). Rosneft used these funds to reimburse the advance payment received in June 2007 following the agreement to sell 50% of Tomskneft as well as the interest paid by Rosneft on the advance payment. The difference of U.S.\$ 1,745 million between the proceeds from the sale of 50% of Tomskneft and other related assets and the carrying value, including interest accrued on the advance payment, was reflected as additional capital contribution, net of tax, as the sale is a related-party

transaction, Gazpromneftfinance being a related party under common control with Rosneft. Since the date of sale, Rosneft accounts for Tomskneft using the equity method.

Rights and Receivables

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

Transportation assets and Other Assets

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

Equipment and Geological Information

On 12 July 2007, the Company won an auction for the sale of certain assets of Yukos which primarily include property, plant and equipment, as well as licences related to the exploration and production of crude oil in Western and Eastern Siberia and in the Samara region of the Russian Federation. Rosneft purchased these assets and licences for a total consideration of RUB 6.90 billion (US\$ 0.27 billion at the CBR exchange rate in effect at the date of payment).

Southern Russia Marketing and Power Generation Assets

On 2 July 2007, LLC Neft-Aktiv purchased marketing and power generation companies formerly owned by Yukos and located in Southern Russia sold in auctions 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 at the transaction date).

Marketing and Management Assets

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

European Russia Downstream Assets

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

Upstream Service and IT Companies

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

Samara Upstream and Downstream Assets

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

Western and Eastern Siberia Upstream and Downstream Assets

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

Yuganskneftegaz Service Companies

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

Treasury Stock

On 27 March 2007, 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 with a face value of RUB 3,558 million (US\$ 138 million at the CBR exchange rate in effect at the date of payment) from Yukos for a total consideration of RUB 197.84 billion (US\$ 7.65 billion at the CBR exchange rate in effect at the date of payment). For purposes of Rosneft's reporting, the total consideration was allocated to the assets acquired pro rata to their respective fair values and amounted to RUB 194.05 billion for the Company's shares, or RUB 194.05 per share (US\$ 7.52 billion, or US\$ 7.52 per share, at the CBR exchange rate in effect at the date of the transaction). Title to the shares and promissory notes was transferred to RN-Razvitie on 17 April 2007.

Financing of the Purchases

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

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

In June 2007, the Company received US\$ 3.4 billion as an advance payment for the sale of 50% of Tomskneft shares. On 27 December 2007, Rosneft sold a 50% stake in Tomskneft as well as other related assets to Gazpromneftfinance, a subsidiary of Gazprom neft. Since the date of sale, Rosneft accounts for Tomskneft using the equity method. The advance payment received by Rosneft was used to help finance the acquisition of Yukos assets.

Other Significant Acquisitions

Verkhnechonskneftegaz

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

E&P VankorLtd

In October 2007, Anglo Siberian Oil Company Limited (UK), a Company's wholly owned indirect subsidiary, bought 100% of the shares of E&P Vankor Ltd ("**E&P Vankor**") for US\$ 88 million. E&P Vankor Ltd is the beneficiary of a successful legal claim against Anglo Siberian Oil Company Limited. The Company accrued US\$ 134 million in respect of this claim as of 31 December, 2006. E&P Vankor does not own any other significant assets and has no liabilities other than a related tax liability of US\$ 48 million. Accordingly this transaction has been accounted for as an asset acquisition.

Fuelling Stations in the Moscow Region

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

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

Fuelling Stations in the Stavropol Region

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

Vlakra

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

Yukos-Mamontovo

On 3 April 2007, the Company received the title to a 100% interest in CJSC Yukos-Mamontovo (“**Yukos-Mamontovo**”) for no consideration. The title to this asset was transferred in accordance with a court ruling of the Moscow Arbitration Court. Yukos-Mamontovo owns wells and service facilities leased by Yuganskneftegaz and used in crude oil production.

Okhinskaya TETS

In January 2007, the Company purchased 85.61% of the ordinary shares of Okhinskaya TETS for RUB 629 million (US\$ 24 million at the CBR exchange rate in effect at the transaction date).

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

Truboprovodny Consortium Burgas-Alexandroupolis

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

Licences Won at Auctions

The Company won several auctions for hydrocarbon exploration, development and production licences.

First Half of 2008

Umotkinsky Block

In February 2008, the Company won an auction for a licence for the exploration and production of crude oil and gas in the Umotkinsky Block located in the Irkutsk region. The total cost of the licence amounted to RUB 1.12 billion (US\$ 47.7 million at the CBR exchange rate in effect as of 30 June 2008) and was fully paid in cash in April 2008. The licence was granted in May 2008 and expires in April 2033.

2007

Uzhno-Teplovsky Block

In December 2007, the Company won an auction for a licence for the exploration of and development and production of crude oil and gas in the Uzhno-Teplovsky Block in the Khanty- Mansisk Autonomous District. The total cost of the licence amounted to RUB 147 million (US\$ 6.0 million at the CBR exchange rate in effect at the auction date). The licence was granted in April 2008 and expires in April 2033.

Preobrazhensky Block

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

Zapadno-Chonsky and Verkhneichersky Blocks

In July 2007, LLC Vostok-Energy, a joint venture in which the Company owns 51% and China National Petroleum Corporation (“CNPC”) owns 49%, won an auction for licences for the exploration of and development and production of crude oil and gas in the Zapadno-Chonsky Block and Verkhneichersky Block in the Irkutsk region, approximately 90-120 kilometres away 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 at the auction date) and the cost of the Verkhneichersky licence was RUB 780.0 million (US\$ 30 million at the CBR exchange rate in effect at the auction date). The licences were granted in October 2007 and expire in September 2032.

Sovetsky and Biryukovsky Blocks

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

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

Changes in prices, export customs duty and transport tariffs can have a significant impact on the mix of products and the sales channels the Company selects, as it seeks to maximise netback prices for the crude oil the Company elects to produce. Rosneft’s net income was significantly affected by increases in crude oil, petroleum products and gas prices in the first half of 2008.

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 crude 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 between upstream and downstream segments of the vertically integrated oil companies that dominate the market. Moreover, to the extent they exist, crude oil market prices in Russia can be significantly lower than they might otherwise be due to seasonal oversupply and regional imbalances.

The dynamics of petroleum products 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 and competition in the different markets.

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
	2008	2007		2008	2007	
World market	(US\$ per barrel)		(%)	(US\$ per barrel)		(%)
Brent	121.38	68.84	76.3%	109.14	63.30	72.4%
Urals (average Med+NWE)	117.54	65.16	80.4%	105.43	59.73	76.5%
Dubai-Oman	117.04	64.97	80.1%	104.46	60.28	73.3%
	(US\$ per tonne)			(US\$ per tonne)		
Premium gasoline (average NWE)	1,059.70	747.13	41.8%	955.43	653.39	46.2%
Regular gasoline (average NWE)	1,060.10	732.46	44.7%	950.57	642.87	47.9%
Naphtha (average Med)	968.78	647.57	49.6%	897.23	590.75	51.9%
Fuel oil (average Med)	545.42	319.18	70.9%	495.27	287.65	72.2%
Jet (average NWE)	1,256.27	671.35	87.1%	1,104.13	630.01	75.3%
Gasoil (average Med)	1,146.03	614.25	86.6%	1,014.34	570.02	77.9%
Russian market⁽¹⁾	(US\$ per tonne)			US\$ per tonne)		
Crude oil	417.41	277.34	50.5%	379.49	234.25	62.0%
Fuel oil	386.54	203.75	89.7%	346.56	162.18	113.7%
Diesel fuel (Gasoil)	1,040.73	566.79	83.6%	914.41	534.22	71.2%
High octane gasoline	1,042.69	770.27	35.4%	976.19	711.99	37.1%
Low octane gasoline	942.07	643.75	46.3%	862.47	596.35	44.6%

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

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

Rosneft's gas sales have been limited to date, but the Company's strategy anticipates a significant increase in its gas business. Gazprom controls access to the Unified Gas Supply System (UGSS) and is the dominant 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. 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 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 980.7 (US\$ 40.96) per thousand cubic meters and RUB 726 (US\$ 27.85) per thousand cubic meters in the first half of 2008 and 2007, respectively, and RUB 961.2 (US\$ 40.68) per thousand cubic meters and RUB 710.4 (US\$ 27.47) per thousand cubic meters in the second quarter of 2008 and 2007. Expressed in US dollars, these prices were affected by the appreciation of the rouble against the US dollar.

RUB/US\$ Exchange Rate Movements and Inflation

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

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

	For the three months ended 30 June		For the six months ended 30 June	
	2008	2007	2008	2007
Rouble inflation (CPI) for the specified period ⁽¹⁾	3.9%	2.2%	8.7%	5.7%
Rouble/US dollar exchange rate at the beginning of the period ⁽¹⁾	23.51	26.01	24.55	26.33
Rouble/US dollar exchange rate at the end of the period ⁽¹⁾	23.46	25.82	23.46	25.82
Average rouble/US dollar exchange rate during the period ⁽¹⁾	23.63	25.86	23.94	26.08
Real appreciation/(depreciation) of the rouble against the US dollar ⁽²⁾	4.1%	3.0%	13.5%	7.8%
Real appreciation/(depreciation) of the rouble against the US dollar, as calculated by Rosneft for the specified period (versus the period one year earlier) ⁽³⁾	24.7%	14.5%	24.7%	14.5%

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

(2) Rosneft uses the following formula to determine the real appreciation of the rouble against the USD dollar: ratio of the CBR exchange rate in effect at the beginning of the period to the CBR exchange rate in effect at the end of the period multiplied by the inflation index minus 1.

(3) Rosneft uses the following formula to determine the real appreciation/(depreciation) of the rouble against the US dollar: the real rouble appreciation for twelve months 2007 plus the real rouble appreciation for the first half of 2008 minus the real rouble appreciation for the first half of 2007. (The same formula is applicable to the first half of 2007).

Taxation, including changes in Mineral Extraction Tax and Export Customs Duty

Rosneft pays a significant portion of its revenues in taxes, as set out in the following table:

	For the three months ended 30 June				For the six months ended 30 June			
	2008		2007		2008		2007	
	\$US million	% of total revenue	\$US million	% of total revenue	\$US million	% of total revenue	\$US million	% of total revenue
Total revenues	21,134	100.0%	10,785	100.0%	37,502	100.0%	19,005	100.0%
Export customs duty (for oil and gas sales)	4,665	22.1%	2,163	20.1%	8,115	21.6%	4,475	23.5%
Export customs duty (for petroleum products sales)	1,142	5.4%	351	3.3%	2,170	5.8%	717	3.8%
Mineral extraction tax	4,007	19.0%	1,921	17.8%	7,083	18.9%	3,575	18.8%
Excise tax	298	1.4%	169	1.6%	611	1.6%	311	1.6%
Other taxes (including property tax)	230	1.1%	229	2.1%	431	1.1%	349	1.8%
Income tax	1,470	7.0%	2,500	23.2%	2,306	6.1%	2,621	13.8%
Total taxes	11,812	55.9%	7,333	68.0%	20,716	55.2%	12,048	63.4%

The mineral extraction tax and the export customs duty accounted for approximately 46% of Rosneft's total revenues during the periods being analysed. The table below provides information on the mineral extraction tax and the export customs duty for the periods indicated:

	For the three months ended 30 June		Change	For the six months ended 30 June		Change
	2008	2007	%	2008	2007	%
Mineral extraction tax						
Crude oil (RUB per tonne)	4,097	2,339	75.2%	3,701	2,121	74.5%
Crude oil (US\$ per barrel)	23.70	12.37	91.6%	21.13	11.12	90.0%
Gas (RUB per thousand cubic meters)	147	147	0.0%	147	147	0.0%
Export customs duty						
Crude oil (US\$ per tonne)	359.43	171.13	110.0%	336.88	175.58	91.9%
Crude oil (US\$ per barrel)	49.14	23.39	110.1%	46.05	24.00	91.9%
Light and medium distilled products (US\$ per tonne)	254.43	127.63	99.3%	239.25	130.62	83.2%
Fuel oil (US\$ per tonne)	137.10	68.90	98.9%	128.92	70.42	83.1%

Mineral Extraction Tax

The rate of mineral extraction tax for crude oil in the three months ended 30 June 2008 and 2007 and in the first half of 2008 and 2007, respectively, 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 in the respective period, and "R_t" is the average rouble/US dollar exchange rate established by the CBR in the previous month. The base rate was RUB 419 in the second quarters of 2008 and 2007 and in the first half of 2008 and 2007.

In the second quarter of 2008, the rate of mineral extraction tax for crude oil increased by 75.2%, primarily due to a 80.4% increase in average crude oil prices as compared to the second quarter of 2007.

Actual mineral extraction tax was US\$ 22.82 per barrel of crude oil produced and US\$ 20.98 per barrel of oil equivalent ("boe") produced in the second quarter of 2008 and US\$ 11.21 per barrel of crude oil produced and US\$ 9.94 per boe produced in the second quarter of 2007.

In the first half of 2008, the rate of mineral extraction tax for crude oil increased by 74.5%, primarily due to a 76.5% increase in average crude oil prices as compared the first half of 2007.

Actual mineral extraction tax was US\$ 20.13 per barrel of crude oil produced and US\$ 18.35 per barrel of oil equivalent ("boe") produced for the first half of 2008 and US\$ 11.20 per barrel of crude oil produced and US\$ 9.80 per boe produced for the first half of 2007.

The rate of mineral extraction tax for gas remained unchanged during the periods being analyzed and amounted to RUB 147 per thousand cubic meters of gas produced in the second quarters of 2008 and 2007, and for the first half of 2008 and 2007, respectively.

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

- Certain mineral extraction 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 extraction tax.
- Certain mineral extraction tax-free periods for crude oil losses within normative limits, approved for the previous years, if the new norms are not approved by 25 February of the current year.
- Inclusion of a depletion ratio in the formula for calculating mineral extraction tax rates, which enables correction of the tax rate depending on the degree of depletion of each field. The lower mineral extraction tax rates apply to "brownfield" interests that are depleted by more than 80%.
- Zero mineral extraction tax rate for high viscosity crude oil (more than 200 Megapascal second under reservoir conditions).

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

Export Customs Duty

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

The table below sets forth the calculation of the maximum export customs duty in the second quarter and in the six months of 2008 and 2007.

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

The average Urals prices increased by 80.4% to US\$ 117.54 per barrel in the second quarter of 2008 from US\$ 65.16 per barrel in the second quarter of 2007, and the export customs duty for crude oil increased by 110.0% to US\$ 359.43 per tonne (US\$ 49.14 per barrel) of crude oil in the second quarter of 2008 from US\$ 171.13 per tonne (US\$ 23.39 per barrel) in the second quarter of 2007.

The average Urals prices increased by 76.5% to US\$ 105.43 per barrel for the first half of 2008 from US\$ 59.73 per barrel for the first half of 2007, and the export customs duty for crude oil increased by 91.9% to US\$ 336.88 per tonne (US\$ 46.05 per barrel) of crude oil for the first half of 2008 from US\$ 175.58 per tonne (US\$ 24.00 per barrel) for the first half of 2007.

The difference in growth between the oil price and export duty in the periods being analysed is primarily due to the Russian Government setting the rate of export customs duty every two months and with a time lag to the average world prices for Urals crude oil. Export duties for petroleum products are established by the Russian Government depending on world crude oil prices.

Actual average export customs duty with respect to oil sales was US\$ 48.70 per barrel of crude oil exported in the second quarter of 2008 and US\$ 20.90 per barrel of crude oil exported in the second quarter of 2007. For the first half of 2008 and 2007, the actual average export customs duty with respect to oil sales was US\$ 43.76 per barrel of crude oil exported and US\$ 21.88 per barrel of crude oil exported, respectively.

Prior to 1 January 2007, export duties were not payable on exports of crude oil and petroleum products to all CIS countries that were members of the Customs Union including Belarus, Kazakhstan, Kyrgyzstan and Tajikistan. Starting from 1 January 2007, export customs duties are levied on crude oil exports to Belarus at the fractional rate of 0.293 from export custom duties as calculated pursuant to the table above. Crude oil exports to Belarus were 6.55 million barrels in the second quarter of 2008 and 8.83 million barrels in the second quarter of 2007. Crude oil exports to Belarus were 14.50 million barrels in the first half of 2008 and 17.43 million barrels in the first half of 2007.

Crude oil sales to countries that are exempt from the export customs duty were US\$ 166 million (2.56 million barrels) for the three months ended 30 June 2008 and US\$ 282 million (4.90 million barrels) for the first half of 2008. In 2007 crude oil sales to countries that are exempt from the export customs duty were US\$ 60 million (1.47 million barrels) for the three months ended 30 June 2007 and US\$ 103 million (2.93 million barrels) for the first half of 2007. Sales of crude oil produced pursuant to the Production Sharing Agreement (“PSA”) “Sakhalin 1” are exempt from export customs duties. Crude oil sales within the Sakhalin 1 project were 3.81 million barrels in the second quarter of 2008, and 6.84 million barrels in the first half of 2008, and 4.14 million barrels in the second quarter of 2007 and 8.25 million barrels in the first half of 2007.

Changes in Transport Tariffs Of Pipeline and Railway Monopolies

The Company depends on the infrastructure of the country's transport monopolies, particularly its pipeline and railway networks, to ship its crude oil and petroleum products.

AK Transneft and RZD set the tariffs for each separate route in the pipeline and railroad networks depending on the length of the relevant routes. The table below presents ranges of tariffs applied for major transportation routes.

	For the three months ended 30 June		Change ⁽¹⁾	For the six months ended 30 June		Change ⁽¹⁾
	2008	2007	%	2008	2007	%
CRUDE OIL						
Export sales						
Transneft tariff (RUB per tonne)	415.05 - 822.56	200.90 - 687.17	19.4%	415.05 - 822.56	200.90 - 687.17	19.4%
Transneft tariff (US\$ per tonne)	17.52 - 34.81	7.77 - 26.57	30.7%	17.31 - 34.35	7.70 - 26.35	30.0%
Railroad tariff (RUB per tonne)	486.81 - 1,655.16	568.27 - 1,646.29	3.4%	492.46 - 1,655.53	546.63 - 1,646.22	3.8%
Railroad tariff (US\$ per tonne)	20.60 - 70.05	21.97 - 63.66	13.2%	20.57 - 69.14	20.96 - 63.12	13.1%
Transportation to refineries and domestic sales						
Transneft tariff (RUB per tonne)	347.28 - 997.4	273.45 - 817.05	19.6%	353.11 - 997.02	308.39 - 817.04	19.6%
Transneft tariff (US\$ per tonne)	14.70 - 42.21	10.57 - 31.59	31.8%	14.75 - 41.64	11.82 - 31.33	30.1%
Railroad tariff (RUB per tonne)	314.49 - 2,245.05	284.15 - 1,932.11	15.2%	334.05 - 2,229.24	286.44 - 1,929.29	15.2%
Railroad tariff (US\$ per tonne)	13.31 - 95.02	10.99 - 74.71	26.0%	13.95 - 93.1	10.98 - 73.97	25.4%
PETROLEUM PRODUCTS						
Export sales						
Transnefteprodukt tariff (RUB per tonne)	274.43 - 1,207.70	216.51 - 1,123.39	20.7%	274.43 - 1,207.70	216.51 - 1,123.39	20.7%
Transnefteprodukt tariff (US\$ per tonne)	11.61 - 51.11	8.37 - 43.44	32.1%	11.46 - 50.44	8.30 - 43.07	31.5%
Railroad tariff (RUB per tonne)	168.20 - 4,783.22	427.62 - 2,716.85	12.5%	168.20 - 4,149.35	427.62 - 2,716.85	8.8%
Railroad tariff (US\$ per tonne)	7.12 - 202.44	17.39 - 112.42	23.1%	7.02 - 180.04	17.52 - 111.47	18.5%

Source: AK Transneft, NK Rosneft, RZD.

- (1) The change is calculated based on the average tariff, which is the simple average of tariffs applied at major transportation routes, and does not account for share of each direction. Change in cost per tonne transported is presented in section “—Results of Operations—Costs and Expenses—Pipeline Tariffs and Transportation Costs”.

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 through its pipeline network in Russia and abroad. The Federal Tariff Service (the “FTS”), a governmental body regulating natural monopolies, annually sets Transneft's base tariff for the transportation of crude oil via trunk pipelines, which includes a dispatch tariff, a pumping tariff, and loading, charge-discharge, transshipment and other tariffs. The tariff is set in roubles and is not linked to an exchange rate. 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 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, through which the petroleum products are exported to Asia.

For a detailed information on actual transportation cost per tonne transported through Transneft's and Transnefteprodukt's pipelines and by railroad, see section “—Results of Operations—Cost and Expenses—Pipeline Tariffs and Transportation Costs”.

Production of Crude Oil, Gas and Petroleum Products

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 natural and associated gas.

Production of Crude Oil

Rosneft produces crude oil at seven production Business Units and six fully consolidated production and development subsidiaries, including Samaraneftegaz and East Siberian Oil and Gas Company ("VSNK"), which Rosneft acquired in May 2007. On 27 December, 2007, Rosneft sold to 50.0% of Tomskneft to Gazprom Neft. Tomskneft was consolidated in Rosneft's financial statements from the date of its acquisition in the second quarter of 2007. Since the date of sale, the Company accounts for Tomskneft's production on a 50.0% equity basis. The Company also has a 20% share in the Sakhalin-1 project, which Rosneft has consolidated under the proportionate consolidation method, in which Rosneft recovered the right to receive its *pro rata* share of the project's income following the repayment of the carried interest to the Oil and Natural Gas Corporation Videsh Ltd. starting from 31 July 2006. In addition, Rosneft participates in four crude oil production joint ventures (including Tomskneft), which Rosneft accounts for using the equity method.

Yuganskneftegaz, and Purneftegaz in Western Siberia, and Samaraneftegaz and Severnaya Neft in the European part of Russia are Rosneft's most important production and development Business Units, collectively accounting for 83.5% of the Company's crude oil production for the second quarter of 2008 and for the first half of 2008 and accounting for 79.9% and 82.3% of the Company's crude oil production in the second quarter of 2007 and in the first half of 2007, respectively. Yuganskneftegaz accounted for 61.6% and 59.8%, Purneftegaz for 7.8% and 9.4%, Samaraneftegaz for 8.9% and 4.9% and Severnaya Neft for 5.1% and 5.7% of Rosneft's production in the second quarter of 2008 and 2007, respectively. Yuganskneftegaz accounted for 61.5% and 63.3%, Purneftegaz for 7.9% and 10.2%, Samaraneftegaz for 8.9% and 2.6%, Severnaya neft for 5.1% and 6.1% in the first half of 2008 and 2007, respectively.

The following table sets forth Rosneft's crude oil production for the period indicated:

	For the three months ended 30 June		% change	For the six months ended 30 June		% change
	2008	2007		2008	2007	
	(millions of barrels)			(millions of barrels)		
Crude oil production by Business Units and fully and proportionately consolidated subsidiaries ⁽¹⁾	175.61	171.35 ⁽³⁾	2.5%	351.95	319.27 ⁽³⁾	10.2%
Crude oil production, as above, plus the share in production of joint ventures ⁽²⁾	192.60 ⁽⁴⁾	177.94	8.2%	385.96 ⁽⁴⁾	332.34	16.1%

(1) Crude oil production by Business Units and subsidiaries includes Rosneft's net share of oil produced under the Sakhalin-1 PSA net of 8.00% royalty of 0.29 million barrels, 0.34 million barrels, 0.60 million barrels, and 0.65 million barrels in the second quarter of 2008 and 2007 and for the first half of 2008 and 2007 respectively, and net of 2.07% Russian Government share of 0.07 million barrels, 0.09 million barrels, 0.16 million barrels and 0.17 million barrels in the second quarter of 2008 and 2007 and for the first half of 2008 and 2007.

(2) Crude oil production by Business Units and subsidiaries as set forth above, together with the share in production of joint ventures, including Rosneft's 50.0% share in crude oil produced by LLC Polar Lights ("Polar Lights") of 0.99 million barrels, 1.06 million barrels, 2.03 million barrels and 2.06 million barrels, 49.4% share in crude oil produced by Udmurtneft, of 5.62 million barrels, 5.51 million barrels, 11.21 million barrels and 10.96 million barrels, and 50.0% share in crude oil produced by LLC Aday Petroleum Company ("Aday Petroleum"), joint venture in Kazakhstan, of 0.01 million barrels, 0.02 million barrels, 0.02 million barrels and 0.05 million barrels in the second quarter of 2008 and 2007 and for the first half of 2008 and 2007, respectively, and the 50% share in crude oil produced by Tomskneft of 10.37 million barrels in the second quarter of 2008 and 20.75 million barrels in the first half of 2008.

(3) Including Tomskneft 100% crude oil production of 12.45 million barrels since acquisition date in May 2007 in the second quarter of 2007 and for the first half of 2007.

(4) Including Tomskneft 50.0% share in crude oil production of 10.37 million barrels and 20.75 million barrels in the second quarter of 2008 and for the first half of 2008, respectively.

Excluding production of crude oil by its joint ventures and by Tomskneft, Samaraneftegaz and VSNK, Rosneft increased production of crude oil by 5.5%, to 158.32 million barrels in the second quarter of 2008 from 150.09 million barrels in the second quarter of 2007. This growth resulted primarily from Rosneft's organic growth that was mainly due to increased output at Yuganskneftegaz, which was partially offset by the decrease in production at Purneftegaz, and certain other upstream units, including Sakhalin-1 in which the Company has a

20% share. Production by Yuganskneftegaz increased to 118.73 million barrels in the second quarter of 2008 from 106.45 million barrels in the second quarter of 2007, or by 11.5%. The Company's net *pro rata* share of oil produced under the Sakhalin-1 PSA was 3.21 million barrels in the second quarter of 2008 compared to 3.78 million barrels in the second quarter of 2007.

Excluding production of crude oil by its joint ventures and by Tomskneft, Samaraneftgaz and VSNK, Rosneft increased production of crude oil by 6.6%, to 317.56 million barrels for the first half of 2008 from 298.01 million barrels for the first half of 2007. This growth resulted primarily from Rosneft's organic growth that was mainly due to increased output at Yuganskneftegaz, which was partially offset by the decrease in production at Purneftegaz, and certain other upstream units, including Sakhalin-1, in which the Company has a 20% share. Production by Yuganskneftegaz increased to 237.45 million barrels for the first half of 2008 from 210.44 million barrels for the first half of 2007, or by 12.8%. The Company's net *pro rata* share of oil produced under the Sakhalin-1 PSA was 6.75 million barrels for the first half of 2008 compared to 7.35 million barrels for the first half of 2007.

Samaraneftgaz and VSNK were acquired by Rosneft in May 2007 and fully consolidated from the date of acquisition. These companies collectively produced 17.29 million barrels of crude oil in the second quarter of 2008 and 8.81 million barrels of crude oil in the second quarter of 2007 from the date of their acquisition. Tomskneft was also acquired by Rosneft in May 2007 and fully consolidated to Rosneft's financial statements, prior to its sale in December 2007, following which Rosneft consolidates Tomskneft using the equity method. Tomskneft produced 12.45 million barrels of crude oil in the second quarter of 2007 from the date of its acquisition. Including its share in the production of joint ventures, 50% share in the production of Tomskneft from December 2007 and 100% prior to that date, and production of Samaraneftgaz and VSNK, Rosneft's crude oil production was 192.69 million barrels in the second quarter of 2008 compared to 177.94 million barrels in the second quarter of 2007, an increase of 8.2%.

Samaraneftgaz and VSNK produced 34.39 million barrels of crude oil for the first half of 2008 and 8.81 million barrels of crude oil in the first half of 2007 from the date of their acquisition. Tomskneft produced 12.45 million barrels of crude oil in the first half of 2007 from the date of its acquisition. Including its share in the production of joint ventures, 50% share in the production of Tomskneft from December 2007 and 100% prior to that date, and production of Samaraneftgaz and VSNK, Rosneft's crude oil production was 385.96 million barrels in the first half of 2008 compared to 332.34 million barrels in the first half of 2007, a 16.1% increase.

In the second quarter of 2008, the total daily crude oil production by Rosneft, including its share in the production of joint ventures, but excluding production at Samaraneftgaz, VSNK and Tomskneft, was 1,812.57 thousand barrels per day as compared to 1,721.84 thousand barrels per day in the second quarter of 2007, an increase of 5.3%. This growth of production was largely attributable to the growth of production at Yuganskneftegaz and to the drilling of new production wells (166 wells in the second quarter of 2008 compared to 161 wells in the second quarter of 2007).

For the first half of 2008, the total daily crude oil production by Rosneft, including its share in the production of joint ventures, but excluding production at Samaraneftgaz, VSNK and Tomskneft, was 1,817.64 thousand barrels per day as compared to 1,718.65 thousand barrels per day for the first half of 2007, an increase of 5.8%. This growth was largely attributable to the growth of production at Yuganskneftegaz and to the drilling of new production wells (314 wells for the first half of 2008 compared to 267 wells for the first half of 2007).

Production by Samaraneftgaz and VSNK contributed 189.97 thousand barrels of crude oil per day in the second quarter of 2008 and 96.76 thousand barrels per day in the second quarter of 2007. Rosneft's share in the production of Tomskneft added another 113.91 thousand barrels per day in the second quarter of 2008 and full share of production of 136.84 thousand barrels per days in the second quarter of 2007. Total daily crude oil production by Rosneft, including its share in the production of joint ventures and production at Samaraneftgaz, VSNK and Tomskneft amounted to 2,116.48 thousand barrels in the second quarter of 2008, an increase of 8.2% compared to the second quarter of 2007.

Production by Samaraneftgaz and VSNK contributed 188.97 thousand barrels of crude oil per day for the first half of 2008 and 48.65 thousand barrels per day in the first half of 2007. Rosneft's share in production of Tomskneft added another 114.03 thousand barrels per day for the first half of 2008 and full share of production of 68.80 thousand barrels per day in the first half of 2007. Total daily crude oil production by Rosneft, including its share in the production of joint ventures and production at Samaraneftgaz, VSNK and Tomskneft amounted to 2,120.66 thousand barrels in the first half of 2008 an increase of 15.5% compared to the first half of 2007.

Production of Gas

The table below sets forth Rosneft's gas production for the periods indicated:

	For the three months ended 30 June		% change	For the six months ended 30 June		% change
	2008	2007		2008	2007	
	(bcm)			(bcm)		
Gas production by Business Units and fully and proportionately consolidated subsidiaries ⁽¹⁾	2.61	3.73	(30.0)%	5.77	7.71	(25.2)%
Gas production, as above, plus the share in production of joint ventures ⁽²⁾	2.85	3.74	(23.8)%	6.25	7.73	(19.1)%

(1) Gas production by Business Units and subsidiaries includes Rosneft's share of gas produced under the Sakhalin-1 PSA net of 8.00% royalty of 4.52 million cubic metres ("mmcm") in the second quarter of 2008, 4.23 mmcm in the second quarter of 2007, 11.53 mmcm in the first half of 2008 and 9.10 mmcm in the first half of 2007 and net of 2.07% Russian Government share of 1.17 mmcm in the second quarter of 2008, 1.09 mmcm in the second quarter of 2007, 2.98 mmcm for the first half of 2008 and 2.35 mmcm in the first half of 2007.

(2) Gas production by Business Units and consolidated subsidiaries as set forth above, together with the share in production of joint ventures, including Rosneft's 50.0% share in gas produced by Polar Lights of 4.16 mmcm, 3.98 mmcm, 8.95 mmcm and 8.15 mmcm; 49.4% share of Rosneft in gas produced by Udmurtneft of 7.03 mmcm, 6.87 mmcm, 13.98 mmcm, 13.67 mmcm in the second quarter of 2008 and 2007 and for the first half of 2008 and 2007, respectively; and 50.0% share in gas produced by Tomskneft of 233.88 mmcm in the second quarter of 2008 and 454.93 mmcm for the first half of 2008.

Excluding production by its joint ventures and by Tomskneft, Samaraneftgaz and VSNK from the date of their acquisition, Rosneft's gas production decreased by 27.5% to 2.53 bcm in the second quarter of 2008.

Excluding production by its joint ventures and by Tomskneft, Samaraneftgaz and VSNK from the date of their acquisition, Rosneft's gas production decreased by 24.9% to 5.61 bcm for the first half of 2008, primarily as a result of a reduction of gas production by Purneftgaz and Selkupneftgaz in an effort to reduce flaring at the Kynskoye and Fakhirovskeye fields. In addition, Rosneft did not increase its production in the periods being analysed as it has only a limited access to the UGSS. Their decrease was partially effect by an increase in gas production of Krasnodarneftgaz Business Unit, OJSC Grozneftgaz, Severnaya Neft and Yuganskneftgaz Business Units.

Taking into consideration the production of 0.08 bcm of gas at Samaraneftgaz, VSNK and Tomskneft until December 2007, Rosneft's gas production in the second quarter of 2008 decreased by 30.0% to 2.61 bcm. Taking into consideration the share in production of its joint ventures, 50% share in Tomskneft, starting in December 2007 and 100% prior to that date, Samaraneftgaz and VSNK, Rosneft's gas production decreased to 2.85 bcm in the second quarter of 2008 compared to 3.74 bcm in the second quarter of 2007, a decrease of 23.8%.

Taking into consideration the production of 0.16 bcm of gas at Samaraneftgaz, VSNK and Tomskneft until December 2007, Rosneft's gas production for the first half of 2008 decreased by 25.2% to 5.77 bcm. Taking into consideration the share in production of its joint ventures, 50% share in Tomskneft, starting in December 2007 and 100% prior to that date, Samaraneftgaz and VSNK, Rosneft's gas production decreased to 6.25 bcm for the first half of 2008 compared to 7.73 bcm for the first half of 2007, a decrease of 19.1%.

Rosneft has started developing a 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, building of own power stations at Yuganskneftgaz, Purneftgaz and Krasnodarneftgaz. In addition, Rosneft plans to improve gas quality by constructing oil and gas separation equipment and gas treatment facilities.

Production of Petroleum Products

Rosneft refines the crude oil it produces and purchases at its refineries, including the Tuapse refinery on the Black Sea in the South of Russia, the Komsomolsk refinery in the Russian Far East, the Achinsk and Angarsk refineries in Eastern Siberia and the Kuibyshev, NovoKuibyshev and Syzran refineries in the Samara region (European part of Russia). Rosneft previously arranged for the crude oil it produced to be processed under processing contracts at the refineries formerly controlled by Yukos, namely the Achinsk, Angarsk, Kuibyshev, NovoKuibyshev and Syzran refineries, which Rosneft acquired in May 2007. See "—Significant Acquisitions—in the First Half of 2008 and in 2007—2007—Yukos Assets." In December 2007, the Company sold 100% of the Strezhevskoy mini-refinery to Tomskneft. For the first half of 2008, crude oil was refined at

Strezhevoy mini-refinery pursuant to a processing agreement as a result of the Company selling its 50.0% stake in Tomskneft to Gazprom neft on 27 December 2007.

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

The following table sets forth Rosneft's petroleum products production for the periods analyzed:

	For the three months ended 30 June		% change	For the six months ended 30 June		% change
	2008	2007		2008	2007	
	(millions of tonnes)			(millions of tonnes)		
Petroleum products output by the Komsomolsk and Tuapse refineries and mini-refineries ⁽¹⁾	3.09	2.95	4.7%	6.24	5.95	4.9%
Petroleum products output by the acquired refineries in East Siberia and Samara (mln tonnes) ⁽²⁾	7.86	4.84 ⁽³⁾	62.4%	16.67	8.44 ⁽³⁾	97.5%
Total	10.95	7.79	40.6%	22.91	14.39	59.2%

(1) Mini-refineries include the Purovsk, Usinsk and Strezhevoy mini-refinery in 2007.

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

(3) Prior to May 2007 when Rosneft purchased from Yukos the Achinsk, Angarsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery, petroleum products were produced by these refineries under processing agreement.

The total output of petroleum products, including the output of mini-refineries and the Achinsk, Angarsk, Kuibyshev, NovoKuibyshev and Syzran refineries purchased by Rosneft in May 2007, increased by 40.6%, to 10.95 million tonnes in the second quarter of 2008 from 7.79 million tonnes in the second quarter of 2007. This increase was due to the growth in volumes of refining at Rosneft's refineries due to increased production of crude oil by Samaraneftgaz that was used for refining.

The total output of petroleum products, including the output of mini-refineries and the Achinsk, Angarsk, Kuibyshev, NovoKuibyshev and Syzran refineries purchased by Rosneft in May 2007, increased by 59.2%, to 22.91 million tonnes for the first half of 2008 from 14.39 million tonnes for the first half of 2007. This increase was due to the growth in volumes of refining at Rosneft's refineries due to increased production of crude oil by Tomskneft and Samaraneftgaz that was used for refining.

In the second quarter of 2008, the Tuapse and Komsomolsk refineries and mini-refineries processed 23.48 million barrels (3.21 million tonnes) of Rosneft-produced crude oil, yielding an aggregate of 3.09 million tonnes of petroleum products. The depth of refining at the Komsomolsk refinery decreased to 59.8% in the second quarter of 2008, compared to 60.3% in the second quarter of 2007. The depth of refining at the Tuapse refinery decreased to 55.9% for the second quarter of 2008 from 56.1% for the second quarter of 2007.

For the first half of 2008, the Tuapse and Komsomolsk refineries and mini-refineries processed 47.77 million barrels (6.53 million tonnes) of Rosneft-produced crude oil, yielding an aggregate of 6.24 million tonnes of petroleum products. The depth of refining at the Komsomolsk refinery decreased to 59.5% for the first half of 2008, compared to 60.0% for the first half of 2007. The depth of refining at the Tuapse refinery remained unchanged at 56.3% for the first half of 2008 and 2007.

In the second quarter of 2008, 61.89 million barrels (8.46 million tonnes) were processed at the Achinsk, Angarsk, Kuibyshev, NovoKuibyshev and Syzran refineries which Rosneft purchased in the course of the May 2007 auctions, yielding an aggregate of 7.86 million tonnes of petroleum for these refineries. The depth of refining ranged from 57.3% at the Kuibyshev refinery to 82.4% at the NovoKuibyshevsk refinery in the second quarter of 2008. Processed volumes and petroleum products output were lower than in the first quarter of 2008 due to the planned maintenance services conducted at rectification units of Kuibyshev, NovoKuibyshev and Achinsk refineries.

For the first half of 2008, 131.23 million barrels (17.94 million tonnes) were processed at the Achinsk, Angarsk, Kuibyshev, NovoKuibyshevsk and Syzran refineries which Rosneft purchased in the course of the May 2007 auctions, yielding an aggregate of 16.67 million tonnes of petroleum for these refineries. The depth of refining ranged from 59.0% at the Kuibyshev refinery to 77.8% at the NovoKuibyshevsk refinery for the first half of 2008.

Results of Operations

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

	For the three months ended 30 June			% change	For the six months ended 30 June			% change		
	2008	2007			2008	2007				
		% of total revenue	% of total revenue	(%)	% of total revenue	% of total revenue	(%)			
	(US\$ millions, except %)				(US\$ millions, except %)					
Revenues										
Oil and gas sales	11,767	55.7%	7,208	66.8%	63.2%	20,458	54.6%	12,847	67.6%	59.2%
Petroleum products and processing fees	8,994	42.5%	3,377	31.3%	166.3%	16,359	43.6%	5,872	30.9%	178.6%
Support services and other revenues	373	1.8%	200	1.9%	86.5%	685	1.8%	286	1.5%	139.5%
Total revenues	21,134	100%	10,785	100%	96.0%	37,502	100%	19,005	100%	97.3%
Cost and expenses										
Production and operating expenses	1,086	5.1%	734	6.8%	48.0%	2,106	5.6%	1,276	6.7%	65.0%
Cost of purchased oil, gas, petroleum products and refining costs	772	3.7%	398	3.7%	94.0%	1,541	4.1%	878	4.6%	75.5%
General and administrative expenses	431	2.0%	273	2.5%	57.9%	789	2.1%	459	2.4%	71.9%
Pipeline tariffs and transportation costs	1,402	6.6%	964	8.9%	45.4%	2,783	7.4%	1,903	10.0%	46.2%
Exploration expenses	49	0.2%	47	0.4%	4.3%	123	0.3%	82	0.4%	50.0%
Depreciation, depletion and amortisation	1,076	5.1%	850	7.9%	26.6%	2,030	5.4%	1,523	8.0%	33.3%
Accretion expense	31	0.1%	12	0.1%	158.3%	71	0.2%	23	0.1%	208.7%
Taxes other than income tax	4,535	21.5%	2,319	21.5%	95.6%	8,125	21.7%	4,235	22.3%	91.9%
Export customs duty	5,807	27.5%	2,514	23.3%	131.0%	10,285	27.4%	5,192	27.3%	98.1%
Total cost and expenses	15,189	71.9%	8,111	85.1%	87.3%	27,853	74.3%	15,571	81.9%	78.9%
Operating income	5,945	28.1%	2,674	24.8%	122.3%	9,649	25.7%	3,434	18.1%	181.0%
Other income/(expenses)										
Interest income	95	0.4%	41	(0.4)%	131.7%	169	0.5%	78	0.4%	116.7%
Interest expense	(163)	(0.8)%	(443)	(4.1)%	(63.2)%	(502)	(1.3)%	(644)	(3.4)%	(22.0)%
Loss on disposal of property, plant and equipment	(30)	(0.1)%	(22)	(0.2)%	36.4%	(26)	(0.1)%	(34)	(0.2)%	(23.5)%
Gain/(loss) on disposal of investments	(3)	(0.0)%	24	0.2%	(112.5)%	(4)	(0.0)%	28	0.1%	(114.3)%
Gain from Yukos bankruptcy proceedings	0	0.0%	7,920	73.4%	100.0%	0	0.0%	7,920	41.7%	100.0%
Equity share in affiliates' profits	14	0.1%	9	0.1%	55.6%	126	0.3%	(2)	(0.0)%	6,400%
Dividends and income from joint ventures	(4)	0.0%	5	0.0%	(180.0)%	2	0.0%	6	0.0%	(66.7)%
Other expenses, net	(26)	(0.1)%	(67)	(0.6)%	(61.2)%	(28)	(0.1)%	(118)	(0.6)%	(76.3)%
Foreign exchange loss	(14)	(0.1)%	16	0.1%	(187.5)%	(166)	(0.4)%	(31)	(0.2)%	435.5%
Total other income/(expenses)	(131)	(0.6)%	7,483	69.4%	(101.8)%	(429)	(1.1)%	7,203	37.9%	(106.0)%

	For the three months ended 30 June		%		For the six months ended 30 June		%			
			change				change			
	2008	2007			2008	2007				
	mln USD	% of total revenue	mln USD	% of total revenue	(%)	mln USD	% of total revenue	mln USD	% of total revenue	(%)
	(US\$ millions, except %)				(US\$ millions, except %)					
Income before income tax and minority interest	5,814	27.5%	10,157	94.2%	(42.8)%	9,220	24.6%	10,637	56.0%	(13.3)%
Income tax expense	(1,470)	(7.0)%	(2,500)	(23.2)%	(41.2)%	(2,306)	(6.1)%	(2,621)	(13.8)%	(12.0)%
Income before minority interest	4,344	20.6%	7,657	71.0%	(43.3)%	6,914	18.4%	8,016	42.2%	(13.7)%
Minority interest in subsidiaries' earnings	(32)	(0.2)%	(2)	(0.0)%	1,500%	(38)	(0.1)%	(3)	(0.0)%	1,166%
Comprehensive income	4,312	20.4%	7,655	71.0%	(43.7)%	6,876	18.3%	8,013	42.2%	(14.2)%
Other comprehensive income/(expense)	(7)	(0.0)%	7	0.1%	(200.0)%	(16)	(0.0)%	7	0.0%	(328.6)%
Total income	4,305	20.4%	7,662	71.0%	(43.8)%	6,860	18.3%	8,020	42.2%	(14.5)%

Revenues

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

	For the three months ended 30 June		% change		For the six months ended 30 June		% change			
	2008	2007	2008	2007	2008	2007	2008	2007		
	% of total revenue (US\$ millions, except %)	% of total revenue	(%)		(US\$ millions, except %)	% of total revenue	(%)			
Crude oil										
Export, excluding CIS	10,913	51.7%	6,274	58.2%	73.9%	18,780	50.1%	11,434	60.1%	64.2%
Europe and other directions	8,424	39.9%	4,819	44.7%	74.8%	14,434	38.5%	8,750	46.0%	65.0%
Asia	2,489	11.8%	1,455	13.5%	71.1%	4,346	11.6%	2,684	14.1%	61.9%
CIS	707	3.3%	468	4.3%	51.1%	1,338	3.6%	830	4.4%	61.2%
Domestic	51	0.2%	391	3.6%	(87.0)%	127	0.3%	429	2.3%	(70.4)%
Gas	96	0.5%	75	0.7%	28.0%	213	0.6%	154	0.8%	38.3%
Total oil and gas	11,767	55.7%	7,208	66.8%	63.2%	20,458	54.6%	12,847	67.6%	59.2%
Petroleum products										
Export, excluding CIS	4,853	22.9%	1,666	15.5%	191.3%	8,827	23.5%	2,981	15.7%	196.1%
Europe and other directions	2,841	13.4%	1,042	9.7%	172.6%	5,229	13.9%	1,842	9.7%	183.9%
Asia	2,012	9.5%	624	5.8%	222.4%	3,598	9.6%	1,139	6.0%	215.9%
CIS	186	0.9%	62	0.6%	200.0%	376	1.0%	86	0.5%	337.2%
Domestic	3,813	18.0%	1,571	14.5%	142.7%	6,882	18.4%	2,727	14.3%	152.4%
<i>Wholesale</i>	<i>2,753</i>	<i>13.0%</i>	<i>1,294</i>	<i>11.9%</i>	<i>112.8%</i>	<i>5,096</i>	<i>13.6%</i>	<i>2,269</i>	<i>11.9%</i>	<i>124.6%</i>
<i>Retail</i>	<i>1,060</i>	<i>5.0%</i>	<i>277</i>	<i>2.6%</i>	<i>282.7%</i>	<i>1,786</i>	<i>4.8%</i>	<i>458</i>	<i>2.4%</i>	<i>290.0%</i>
Refining fees	0	0.0%	44	0.4%	–	–	0.0%	44	0.2%	–
Petrochemical products	142	0.7%	34	0.3%	317.6%	274	0.7%	34	0.2%	705.9%
Total petroleum and petrochemical products and refining fees	8,994	42.5%	3,377	31.3%	166.3%	16,359	43.6%	5,872	30.9%	178.6%
Support services and other revenues	373	1.8%	200	1.9%	86.5%	685	1.8%	286	1.5%	139.5%
Total sales	21,134	100.0%	10,785	100.0%	96.0%	37,502	100.0%	19,005	100.0%	97.3%

The table below analyses crude oil, gas and petroleum products sales volumes for the periods analysed.

	For the three months ended 30 June		% change		For the six months ended 30 June		% change			
	2008	2007	2008	2007	2008	2007	2008	2007		
	% of total sales volume	% of total sales volume	% of total sales volume	% of total sales volume	% of total sales volume	% of total sales volume	% of total sales volume	% of total sales volume		
(millions of barrels)										
Crude oil										
Export excluding CIS	93.05	49.9%	98.83	56.1%	(5.8)%	177.75	48.5%	195.39	58.8%	(9.0)%
Europe and other directions	72.86	39.1%	77.54	44.0%	(6.0)%	138.47	37.8%	152.52	45.9%	(9.2)%
Asia	20.19	10.8%	21.29	12.1%	(5.2)%	39.28	10.7%	42.87	12.9%	(8.4)%
CIS	9.07	4.9%	10.31	5.9%	(12.0)%	19.38	5.3%	20.41	6.1%	(5.0)%
Domestic	0.95	0.5%	11.12	6.3%	(91.5)%	2.71	0.7%	12.51	3.8%	(78.3)%
Total crude oil sales	103.07	55.3%	120.26	68.3%	(14.3)%	199.84	54.5%	228.31	68.7%	(12.5)%
(millions of tonnes)										
Export excluding CIS	12.72	49.9%	13.51	56.1%	(5.8)%	24.30	48.5%	26.71	58.8%	(9.0)%
Europe and other directions	9.96	39.1%	10.60	44.0%	(6.0)%	18.93	37.8%	20.85	45.9%	(9.2)%
Asia	2.76	10.8%	2.91	12.1%	(5.2)%	5.37	10.7%	5.86	12.9%	(8.4)%
CIS	1.24	4.9%	1.41	5.9%	(12.0)%	2.65	5.3%	2.79	6.1%	(5.0)%
Domestic	0.13	0.5%	1.52	6.3%	(91.5)%	0.37	0.7%	1.71	3.8%	(78.3)%
Total crude oil sales	14.09	55.3%	16.44	68.3%	(14.3)%	27.32	54.5%	31.21	68.7%	(12.5)%
Petroleum products										
Export excluding CIS	6.07	23.9%	3.72	15.5%	63.2%	12.10	24.2%	7.15	15.7%	69.2%
Europe and other directions	3.69	14.5%	2.39	9.9%	54.4%	7.31	14.6%	4.55	10.0%	60.7%
Asia	2.38	9.4%	1.33	5.6%	78.9%	4.79	9.6%	2.60	5.7%	84.2%
CIS	0.23	0.9%	0.12	0.5%	91.7%	0.55	1.1%	0.20	0.4%	175.0%
Domestic	4.87	19.1%	3.71	15.4%	31.3%	9.75	19.4%	6.82	15.1%	43.0%
<i>Wholesale</i>	<i>3.79</i>	<i>14.9%</i>	<i>3.32</i>	<i>13.8%</i>	<i>14.2%</i>	<i>7.82</i>	<i>15.6%</i>	<i>6.16</i>	<i>13.6%</i>	<i>26.9%</i>
<i>Retail</i>	<i>1.08</i>	<i>4.2%</i>	<i>0.39</i>	<i>1.6%</i>	<i>176.9%</i>	<i>1.93</i>	<i>3.8%</i>	<i>0.66</i>	<i>1.5%</i>	<i>192.4%</i>
Total petroleum product sales	11.17	43.9%	7.55	31.4%	47.9%	22.40	44.7%	14.17	31.2%	58.1%
Petrochemical products sales	0.21	0.8%	0.08	0.3%	162.5%	0.42	0.8%	0.08	0.2%	425.0%
Total crude oil and petroleum product sales	25.47	100.0%	24.07	100.0%	5.8%	50.14	100.0%	45.46	100.0%	10.3%
(billion, bcm)										
Gas										
Sales volumes	2.36		2.73		(13.6)%	5.20		5.53		(6.0)%

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

Average Crude Oil and Petroleum Product Sales Prices

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

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

The following table sets forth Rosneft's average export and domestic prices of crude oil, gas and petroleum products for the periods analysed.

	For the three months ended 30 June				For the six months ended 30 June			
	2008		2007		2008		2007	
	(US\$/barrel)	(US\$/tonne)	(US\$/barrel)	(US\$/tonne)	(US\$/barrel)	(US\$/tonne)	(US\$/barrel)	(US\$/tonne)
Average export prices								
Crude oil, excluding CIS	117.28	857.94	63.48	464.40	105.65	772.84	58.52	428.08
Europe and other directions	115.62	845.78	62.15	454.62	104.24	762.49	57.37	419.66
Asia	123.28	901.81	68.34	500.00	110.64	809.31	62.61	458.02
Crude Oil, CIS	77.95	570.16	45.39	331.91	69.04	504.91	40.67	297.49
Petroleum products, excluding CIS		799.51		447.85		729.50		416.92
Europe and other directions		769.92		435.98		715.32		404.84
Asia		845.38		469.17		751.15		438.08
Petroleum products, CIS		808.70		516.67		683.64		430.00
Average domestic prices								
Crude oil	53.68	392.31	35.16	257.24	46.86	343.24	34.29	250.88
Gas (US\$/thousand cubic meter)		40.68		27.47		40.96		27.85
Petroleum products		782.96		423.45		705.85		399.85
Wholesale		726.39		389.76		651.66		368.34
Retail		981.48		710.26		925.39		693.94
Petrochemical products		676.19		425.00		652.38		425.00

Revenues were US\$ 21,134 million in the second quarter of 2008, a 96.0% increase from US\$ 10,785 million in the second quarter of 2007. Revenues from the sale of crude oil and gas increased by 63.2%, and revenues from the sale of petroleum products grew by 166.3%, for the three months ended 30 June 2008 compared with the three months ended 30 June 2007. The growth in revenues was due to increased sales volumes of petroleum products, accompanied by an increase in average prices. The growth in volumes was due to 40.6% increase in petroleum product production in the second quarter of 2008, accompanied by a 2.5% increase in crude oil production by Rosneft's subsidiaries.

Revenues were US\$ 37,502 million for the first half of 2008, a 97.3% increase from US\$ 19,005 million for the first half of 2007. Revenues from the sale of crude oil and gas increased by 59.2%, and revenues from the sale of petroleum products grew by 178.6%, for the first half of 2008 compared with the first half of 2007. The growth in revenues was due to increased sales volumes of crude oil and petroleum products, accompanied by an increase in average prices. The growth in volumes was due to a 59.2% increase in petroleum product production for the first half of 2008, accompanied by a 10.2% increase in crude oil production by Rosneft's subsidiaries.

Crude Oil Export Sales to Non-CIS

In the second quarter of 2008, crude oil export revenues from exports to non-CIS countries were US\$ 10,913 million compared to US\$ 6,274 million in the second quarter of 2007, an increase of US\$ 4,639 million or 73.9%. A 84.7% increase in average prices had a positive effect on revenues of US\$ 5,006 million. This positive impact was partially offset by a 5.8% decrease in sales volumes, which had a negative impact on revenues of US\$ 367 million. The price increase was attributable to the general growth of world prices; in

particular, the average price for Urals crude oil Mediterranean increased by 80.4%. The decrease in crude oil sales volumes was caused by a corresponding increase in the volume of crude oil that the Company refines into petroleum products for export, consistent with the Company's strategy of directing its crude oil to more profitable uses.

For the first half of 2008, crude oil export revenues from exports to non-CIS countries were US\$ 18,780 million compared to US\$ 11,434 million for the first half of 2007, an increase of US\$ 7,346 million or 64.2%. A 80.5% increase in average prices had a positive effect on revenues of US\$ 8,378 million. This positive impact was partially offset by a 9.0% decrease in sales volumes, which decreased revenues of US\$ 1,032 million. The price increase was attributable to the general growth of world prices; in particular, the average price for Urals crude oil Mediterranean increased by 76.5%.

Crude Oil Export Sales to CIS

In the second quarter of 2008, revenues from sales of crude oil to the CIS were US\$ 707 million compared to US\$ 468 million in the second quarter of 2007, an increase of US\$ 239 million, or 51.1%. Growth in revenues resulted from a 71.8% increase in crude oil prices, which had a positive impact on revenues of US\$ 295 million, and was partially offset by 12.0% decrease in volumes, which had a negative impact on revenues of US\$ 56 million.

For the first half of 2008, revenues from sales of crude oil to the CIS were US\$ 1,338 million compared to US\$ 830 million for the first half of 2007, an increase of US\$ 508 million, or 61.2%. A 69.7% increase in average crude oil prices had a positive effect on revenues of US\$ 550 million. This positive impact was partially offset by a 5.0% decrease in sales volumes, which had a negative impact on revenues of US\$ 42 million.

Crude Oil Domestic Sales

In the second quarter of 2008, domestic crude oil sales were US\$ 51 million compared to US\$ 391 million in the second quarter of 2007, a decrease of US\$ 340 million, or 87.0%. US\$ 358 million of this decrease resulted from a 91.5% decrease in sales volumes, and was partially offset by a 52.5% increase in average sales prices, which increased revenues by US\$ 18 million. The Company sold crude oil to local customers located in the regions of the Company's oil producing facilities. Changes in prices and volumes sold took place as a result of seasonal fluctuations.

For the first half of 2008, domestic crude oil sales were US\$ 127 million compared to US\$ 429 million for the first half of 2007, a decrease of US\$ 302 million, or 70.4%. A US\$ 336 million of this decrease resulted from a 78.3% decrease in sales volumes, and was partially offset by a 36.8% increase in average sales prices, which increased revenues by US\$ 34 million.

Petroleum Products Export Sales to Non-CIS

Average sales prices for petroleum products sales may significantly vary depending on the market and on the volumes dispatched. As a result average prices on the European markets differ from those on Asian markets.

The table below sets forth Rosneft's average price per tonne of petroleum products sold to non-CIS countries for the second quarters of 2008 and 2007:

	For the second quarter of						% change		
	2008			2007			US\$ millions	mln of tonnes	Average price US\$/tonne
	US\$ millions	millions of tonnes	Average price US\$/tonne*	US\$ millions	millions of tonnes	Average price US\$/tonne*			
High octane gasoline	20	0.02	994.81	15	0.02	666.23	33.3%	—	49.3%
Low octane gasoline	34	0.04	940.97	15	0.03	607.51	126.7%	33.3%	54.9%
Naphtha	654	0.68	967.77	302	0.49	614.32	116.6%	38.8%	57.5%
Diesel (Gasoil) fuel	2,444	2.25	1,086.97	710	1.22	583.95	244.2%	84.4%	86.1%
Fuel oil	1,640	3.01	544.47	606	1.93	314.33	170.6%	56.0%	73.2%
Jet fuel (kerosene)	9	0.01	921.04	3	0.00	702.30	200.0%	—	31.1%
Other	52	0.06	932.18	15	0.03	502.71	246.7%	100.0%	85.4%
Total	4,853	6.07	799.51	1,666	3.72	447.85	191.3%	63.2%	78.5%

* Net of VAT

Revenues from the export of petroleum products to non-CIS countries were US\$ 4,853 in the second quarter of 2008 compared to US\$ 1,666 million in the second quarter of 2007, an increase of US\$ 3,187

million, or 191.3%. US\$ 2,135 million was due to a 78.5% increase in average price, while US\$ 1,052 million of this growth resulted from a 63.2% increase in sales volumes. The increase in average prices was due to an increase in world prices; in particular, the average price for fuel oil (average Med) rose by 70.9%. The growth in sales volumes resulted from an overall increase in Rosneft's production of crude oil and petroleum products.

The table below sets forth Rosneft's average price per tonne of petroleum products sold to non-CIS countries during the six months ended 30 June 2008 and 2007:

	For the six months ended 30 June						% change		
	2008			2007			US\$ millions	millions of tonnes	Average price US\$/tonne
	US\$ millions	millions of tonnes	Average price US\$/tonne*	US\$ millions	millions of tonnes	Average price US\$/tonne*			
High octane gasoline	52	0.06	915.94	25	0.04	651.28	108.0%	50.0%	40.6%
Low octane gasoline	69	0.08	878.14	26	0.04	601.32	165.4%	100.0%	46.0%
Naphtha	1,210	1.32	918.08	546	0.95	572.58	121.6%	38.9%	60.3%
Diesel (Gasoil) fuel	4,117	4.20	980.63	1,324	2.44	543.12	211.0%	72.1%	80.6%
Fuel oil	3,259	6.31	516.84	1,036	3.62	285.94	214.6%	74.3%	80.8%
Jet fuel (kerosene)	15	0.02	910.86	6	0.01	697.97	150.0%	100.0%	30.5%
Other	105	0.11	912.00	18	0.05	390.06	483.3%	120.0%	133.8%
Total	8,827	12.10	729.50	2,981	7.15	416.92	196.1%	69.2%	75.0%

* Net of VAT

Revenue from the export of petroleum products to non-CIS countries was US\$ 8,827 million in the six months ended 30 June 2008 compared to US\$ 2,981 million for the six months ended 30 June 2007, an increase of US\$ 5,846 million, or 196.1%. The growth resulted from a 75.0% increase in average prices, which increased revenues by US\$ 3,782 million, accompanied by a 69.2% increase in sales volume, which had a positive impact on revenues of US\$ 2,064 million. The increase in average prices was due to an increase in world prices; in particular, the average price for fuel oil Mediterranean rose by 72.2%. 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

The table below sets forth Rosneft's average price per tonne of petroleum products sold to CIS countries in the second quarters of 2008 and 2007:

	For the second quarter of						% change		
	2008			2007					
	US\$ millions	millions of tonnes	Average price US\$/tonne*	US\$ millions	millions of tonnes	Average price US\$/tonne*	US\$ millions	millions of tonnes	Average price US\$/tonne
High octane gasoline	17	0.02	939.92	2	0.00	657.26	750.0%	–	43.0%
Low octane gasoline	0	0.00	–	2	0.00	601.87	–	–	–
Naphtha	0	0.00	–	9	0.01	591.67	–	–	–
Diesel (Gasoil) fuel	116	0.12	1,002.11	24	0.04	526.23	383.3%	200.0%	90.4%
Fuel oil	19	0.03	544.72	2	0.01	201.66	850.0%	200.0%	170.1%
Jet fuel (kerosene)	24	0.03	800.65	0	0.00	–	–	–	–
Other	10	0.03	331.70	23	0.06	365.95	(56.5)%	(50.0)%	(9.4)%
Total	186	0.23	808.70	62	0.12	516.67	200.0%	91.7%	56.5%

* Net of VAT

Revenue from sales of petroleum products to the CIS countries were US\$ 186 million in the second quarter of 2008 compared to US\$ 62 million in the second quarter of 2007. US\$ 67 million of the growth was attributable to a 56.5% increase in average prices, while US\$ 57 million was due to a 91.7% increase in sales volume. The increase in prices resulted from general growth of world market prices. The reason for growth of sales volumes is an increased demand for petroleum products in CIS.

The table below sets forth Rosneft's average price per tonne of petroleum products sold to CIS countries for the first half of 2008 and 2007:

	For the six months ended 30 June						% change		
	2008			2007					
	US\$ millions	millions of tonnes	Average price US\$/tonne*	US\$ millions	millions of tonnes	Average price US\$/tonne*	US\$ millions	millions of tonnes	Average price US\$/tonne
High octane gasoline	63	0.07	906.85	4	0.01	639.50	1,475.0%	600.0%	41.8%
Low octane gasoline	0	0.00	–	2	0.00	527.39	–	–	–
Naphtha	0	0.00	–	11	0.02	599.66	–	–	–
Diesel (Gasoil) fuel	203	0.24	852.23	32	0.07	487.03	534.4%	242.9%	75.0%
Fuel oil	62	0.13	470.06	11	0.04	253.73	463.6%	225.0%	85.3%
Jet fuel (kerosene)	26	0.03	795.28	0	0.00	–	–	–	–
Other	22	0.08	263.57	26	0.06	439.68	(15.4)%	33.3%	(40.1)%
Total	376	0.55	683.64	86	0.20	430.00	337.2%	175.0%	59.0%

* Net of VAT

In the six months ended 30 June 2008, revenue from sales of petroleum products to the CIS were US\$ 376 million compared to US\$ 86 million for the six months ended 30 June 2007. This increase resulted from a 175.0% increase in volumes, which had a positive impact on revenues of US\$ 150 million, and a 59.0% increase in prices, which increased revenues by US\$ 140 million.

Domestic Sales of Petroleum Products

The table below sets forth Rosneft's average price per tonne of petroleum products sold within Russia during the second quarters of 2008 and 2007:

	For the second quarter of						% change		
	2008			2007					
	US\$ millions	millions of tonnes	Average price US\$/Tonne*	US\$ millions	millions of tonnes	Average price US\$/Tonne*	US\$ millions	millions of tonnes	Average price US\$/tonne
High octane gasoline	1,093	1.20	910.11	446	0.69	650.81	145.1%	73.9%	39.8%
Low octane gasoline	333	0.41	814.14	183	0.34	534.82	82.0%	20.6%	52.2%
Naphtha	0	0.00	0.00	0	0.00	575.49	–	–	–
Diesel fuel	1,490	1.71	873.78	569	1.14	497.64	161.9%	50.0%	75.6%
Fuel oil	144	0.45	317.55	109	0.59	184.10	32.1%	(23.7)%	72.5%
Jet fuel (kerosene)	241	0.30	795.48	91	0.20	445.65	164.8%	50.0%	78.5%
Other	512	0.80	636.39	173	0.75	231.70	196.0%	6.7%	174.7%
Total	3,813	4.87	782.96	1,571	3.71	423.45	142.7%	31.3%	84.9%

* Net of VAT

Revenues from sales of petroleum products on the domestic market were US\$ 3,813 million in the second quarter of 2008 compared to US\$ 1,571 million in the second quarter of 2007, an increase of US\$ 2,242 million, or 142.7%. This growth was attributable to a 84.9% increase in average prices, which increased revenues by US\$ 1,751 million, and a 31.3% increase in sales volume, which had a positive impact on revenue of US\$ 491 million. The increase in sales price was mainly attributable to the growth in world prices of petroleum products. The growth of sales volumes resulted from an increase in refining volumes due to acquisition of former Yukos upstream and downstream assets.

The table below sets forth Rosneft's average price per tonne of petroleum products sold within Russia during the first half of 2008 and 2007:

	For the six months ended 30 June						% change		
	2008			2007					
	US\$ millions	millions of tonnes	Average price US\$/tonne*	US\$ millions	millions of tonnes	Average price US\$/tonne*	US\$ millions	millions of tonnes	Average price US\$/tonne
High octane gasoline	1,936	2.16	898.00	729	1.15	635.23	165.6%	87.8%	41.4%
Low octane gasoline	636	0.83	769.18	333	0.64	523.13	91.0%	29.7%	47.0%
Naphtha	0	0.00	–	2	0.01	386.64	–	–	–
Diesel fuel	2,760	3.45	799.01	975	2.04	478.22	183.1%	69.1%	67.1%
Fuel oil	331	1.23	270.23	215	1.37	156.27	54.0%	(10.2)%	72.9%
Jet fuel (kerosene)	411	0.52	790.04	172	0.38	457.08	139.0%	36.8%	72.8%
Other	808	1.56	517.27	301	1.23	244.79	168.4%	26.8%	111.3%
Total	6,882	9.75	705.85	2,727	6.82	399.85	152.4%	43.0%	76.5%

* Net of VAT

Revenue from the sale of petroleum products on the domestic market was US\$ 6,882 million in the six months ended 30 June 2008, compared to US\$ 2,727 million in the six months ended 30 June 2007, an increase of US\$ 4,155 million, or 152.4%. The growth in revenue from domestic sales of petroleum products resulted from a 76.5% increase in average prices, which had a positive impact on revenues of US\$ 2,983 million, accompanied by a 43.0% increase in sales volumes, which had a positive impact on revenues of US\$ 1,172 million.

Petrochemical Products Sales

The revenues from the sale of petrochemical products in the second quarter and in the first half of 2008 were 142 and 274 US\$ million respectively. The revenues from the sale of petrochemical products in the second quarter and in the first half of 2007 were 34 US\$ million. The Group started selling petrochemical products in May 2007 following the acquisition of petrochemical assets as a result of the Yukos bankruptcy process.

Gas Sales

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

	For the three months ended 30 June			For the six months ended 30 June		
	2008	2007	change	2008	2007	change
Revenue	(US\$ million)		%	(US\$ million)		%
Western Siberia	26	23	13.0%	60	48	25.0%
South Russia	43	36	19.4%	99	70	41.4%
Far East	7	6	16.7%	15	13	15.4%
European part of Russia	20	10	100.0%	39	23	69.6%
Total Rosneft	96	75	28.0%	213	154	38.3%
Sales	(bcm)			(bcm)		
Western Siberia	1.11	1.55	(28.4)%	2.52	2.94	(14.3)%
South Russia	0.79	0.72	9.7%	1.79	1.62	10.5%
Far East	0.13	0.18	(27.8)%	0.29	0.40	(27.5)%
European part of Russia	0.33	0.28	17.9%	0.60	0.57	5.3%
Total Rosneft	2.36	2.73	(13.6)%	5.20	5.53	(6.0)%
Average price	(US\$/thousand of cubic metres)			(US\$/thousand of cubic metres)		
Western Siberia	23.45	14.69	59.6%	24.00	16.25	47.7%
South Russia	55.05	50.49	9.0%	55.36	43.51	27.2%
Far East	52.50	32.49	61.6%	52.61	32.66	61.1%
European part of Russia	62.76	37.69	66.5%	64.52	40.25	60.3%
Total Rosneft	40.68	27.47	48.1%	40.96	27.85	47.1%

Revenues from the sale of gas were US\$ 96 million in the second quarter of 2008, compared to US\$ 75 million in the second quarter of 2007, an increase of US\$ 21 million, or 28.0%. This increase was attributable to a 48.1% increase in prices, which contributed US\$ 31 million to Rosneft's revenues and was partially offset by a 13.6% decrease in sales volumes, from 2.73 bcm to 2.36 bcm, which decreased revenues by US\$ 10 million. The fall of sales volumes resulted from decrease in gas production.

Revenue from the sale of gas was US\$ 213 million in the six months ended 30 June 2008, compared to US\$ 154 million for the six months ended 30 June 2007, an increase of US\$ 59 million, or 38.3%. The growth was attributable to a 47.1% increase in prices, which increased revenues by US\$ 68 million, and was partially offset by a 6.0% decrease in sales volume, from 5.53 bcm to 5.20 bcm, which had a negative impact on revenues of US\$ 9 million.

Support Services and Other Revenues

Revenues from support services and other revenues were US\$ 373 million in the second quarter of 2008 compared to US\$ 200 million in the second quarter of 2007, an increase of 86.5%. The growth was mainly attributable to an increase in the number of service companies within the Group providing drilling, rent, construction, transport, shipment and other services to third parties.

Revenues from support services and other revenues were US\$ 685 million in the six months ended 30 June 2008, a 139.5% increase from US\$ 286 million in the six months ended 30 June 2007. This growth was mainly attributable to an increase in the price and volume of drilling and rent services and of sales of materials.

Costs and Expenses

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

	For the three months ended 30 June				% change (%)	For the six months ended 30 June				% change (%)
	2008		2007			2008		2007		
		% of total revenue		% of total revenue			% of total revenue		% of total revenue	
	(US\$ millions, except %)					(US\$ millions, except %)				
Production and operating expenses	1,086	5.1%	734	6.8%	48.0%	2,106	5.6%	1,276	6.7%	65.0%
Cost of purchased oil, gas, petroleum products and refinery costs	772	3.7%	398	3.7%	94.0%	1,541	4.1%	878	4.6%	75.5%
General and administrative expenses	431	2.0%	273	2.5%	57.9%	789	2.1%	459	2.4%	71.9%
Pipeline tariffs and transportation costs	1,402	6.6%	964	8.9%	45.4%	2,783	7.4%	1,903	10.0%	46.2%
Exploration expenses	49	0.2%	47	0.4%	4.3%	123	0.3%	82	0.4%	50.0%
Depreciation, depletion and amortisation	1,076	5.1%	850	7.9%	26.6%	2,030	5.4%	1,523	8.0%	33.3%
Accretion expense ⁽¹⁾	31	0.1%	12	0.1%	158.3%	71	0.2%	23	0.1%	208.7%
Taxes other than income tax	4,535	21.5%	2 319	21.5%	95.6%	8,125	21.7%	4,235	22.3%	91.9%
Export customs duty	5,807	27.5%	2 514	23.3%	131.0%	10,285	27.4%	5,192	27.3%	98.1%
Total costs and expenses	15,189	71.9%	8 111	75.2%	87.3%	27,853	74.3%	15,571	81.9%	78.9%

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

Costs and expenses were US\$ 15,189 million in the second quarter of 2008, a 87.3% increase from US\$ 8,111 million in the second quarter of 2007. This growth was primarily driven by an increase in the export customs duty and the excise tax paid by Rosneft, as well as by the costs and expenses of subsidiaries acquired from Yukos in April-May 2007, higher depreciation, depletion and amortisation, pipeline tariffs and transportation costs, costs of purchased crude oil, and real rouble appreciation against the US dollar of 24.7% in the second quarter of 2008 as compared to the second quarter of 2007. Costs and expenses accounted for 71.9% and 75.2% of Rosneft's total revenues in the second quarters of 2008 and 2007, respectively. Costs and expenses excluding export customs duties and taxes other than income tax accounted for 22.9% and 30.4% of Rosneft's total revenues in the second quarters of 2008 and 2007, respectively.

Costs and expenses were US\$ 27,853 million in the six months ended 30 June 2008, a 78.9% increase from US\$ 15,571 million in the six months ended 30 June 2007. This growth was primarily driven by an increase in the export customs duty and the excise tax paid by Rosneft, as well as by the costs and expenses of subsidiaries acquired from Yukos in April-May 2007, higher depreciation, depletion and amortisation, pipeline tariffs and transportation costs, costs of purchased crude oil, and real rouble appreciation against the US dollar of 24.7% in the six months ended 30 June 2008 as compared to the six months ended 30 June 2007. Costs and expenses accounted for 74.3% and 81.9% of Rosneft's total revenues in the six months ended 30 June 2008 and 2007, respectively. Costs and expenses excluding export customs duties and taxes other than income tax accounted for 25.2% and 32.3% of Rosneft's total revenues in the six months ended 30 June 2008 and 2007, respectively.

Production and Operating Expenses

In the second quarter of 2008, production and operating expenses were US\$ 1,086 million compared to US\$ 734 million in the second quarter of 2007, a US\$ 352 million, or 55.6%, increase. The main contributors, excluding the real appreciation of the rouble against the US dollar of 24.7%, were US\$ 510 million of operating expenses in the second quarter of 2008 attributable to acquired subsidiaries compared to US\$ 167 million of operating expenses of these entities for the second quarter of 2007, an increase in production volumes, an increase in the number of employees, an increase in wages and an increase in the cost of materials used by the downstream segment.

In the six months ended 30 June 2008, production and operating expenses were US\$ 2,106 million compared to US\$ 1,276 million in the six months ended 30 June 2007, a US\$ 830 million or 65.0% increase. The main contributors, excluding the real appreciation of the rouble against the US dollar of 24.7%, were US\$ 966 million of operating expenses in the second quarter of 2008 attributable to acquired subsidiaries compared to US\$ 167 million of operating expenses of these entities for the first half of 2007, higher production volumes, an increase in and the number of employees, an increase in salaries, an increase in the cost of materials used in the downstream segment.

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

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

Of the total production and operating expenses, the upstream and downstream segments accounted for US\$ 582 million and US\$ 332 million, respectively, in the second quarter of 2008 and US\$ 565 million and US\$ 130 million, respectively, in the second quarter of 2007. Other activities' operating expenses accounted for US\$ 172 million in the second quarter of 2008 and US\$ 38 million in the second quarter of 2007.

Of the total production and operating expenses, the upstream and downstream segments accounted for US\$ 1,145 million and US\$ 633 million, respectively, in the six months ended 30 June 2008 and US\$ 1,043 million and US\$ 175 million, respectively, in the six months ended 30 June 2007. Other activities' operating expenses accounted for US\$ 328 million in the six months ended 30 June 2008 and for US\$ 57 million in the six months ended 30 June 2007.

Upstream production and operating expenses increased by US\$ 17 million in the second quarter of 2008 compared to the second quarter of 2007 due to increases in electricity consumption and in electricity tariffs, increased costs of well workover performed by external service providers and an increase in prices for transport as a result of higher prices for petrol and diesel fuel, as well as real appreciation of the rouble of 24.7%.

Upstream production and operating expenses increased by US\$ 102 million in the first half of 2008 compared to the first half of 2007 due to increases in electricity consumption and in electricity tariffs, increased costs of well workover performed by external service providers and an increase in prices for transport as a result of higher prices for petrol and diesel fuel, as well as real appreciation of the rouble of 24.7%.

Upstream production and operating expenses in the second quarter of 2008 were US\$ 3.31 per bbl produced and US\$ 3.05 per boe produced. Upstream production and operating expenses in the second quarter of 2007 were US\$ 3.29 per bbl produced and US\$ 2.92 per boe produced. These measures are defined below under — "Key Financial Ratios".

Upstream production and operating expenses in the first half of 2008 were US\$ 3.25 per bbl produced and US\$ 2.97 per boe produced. These expenses were US\$ 3.27 per bbl produced and US\$ 2.86 per barrel of oil equivalent produced in the six months ended 30 June 2007.

Upstream production and operating expenses in the second quarter of 2008, excluding Sakhalin-1 costs and costs of Samaraneftgaz, were US\$ 3.02 per bbl produced and US\$ 2.76 per boe produced. These expenses were US\$ 3.03 per bbl produced and US\$ 2.67 per boe produced in the second quarter of 2007.

Upstream production and operating expenses in the six months ended 30 June 2008, excluding Sakhalin-1 costs and costs of Samaraneftegaz, were US\$ 2.90 per bbl produced and US\$ 2.63 per boe produced. These expenses were US\$ 3.02 per bbl produced and US\$ 2.63 per boe produced in the six months ended 30 June 2007.

Downstream and other operating expenses increased by US\$ 335 million for second quarter of 2008 compared to the second quarter of 2007 and increased by US\$ 728 million in the first half of 2008 compared to the first half 2007 due to the additional operating expenses of recently acquired assets in the amount of US\$ 467 million and US\$ 841 million in the second quarter and for the first half of 2008 respectively (compared to downstream and other operating expenses of US\$ 78 million in the second quarter and for the first half of 2007), and higher procurement prices for liquid fuel for transport and energy supplies, as well as real rouble appreciation of 24.7%.

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

	For the three months ended 30 June		change	For the six months ended 30 June		change
	2008	2007	%	2008	2007	%
Petroleum products output	(millions of tonnes)			(millions of tonnes)		
High octane gasoline	0.14	0.14	0.0%	0.27	0.24	12.5%
Low octane gasoline	0.06	0.08	(25.0)%	0.13	0.18	(27.8)%
Naphtha	0.39	0.37	5.4%	0.79	0.73	8.2%
Diesel fuel	1.08	0.84	28.6%	2.15	1.85	16.2%
Fuel oil	1.30	1.27	2.4%	2.60	2.51	3.6%
Jet fuel (kerosene)	0.09	0.08	12.5%	0.18	0.16	12.5%
Other ⁽¹⁾	0.03	0.17	(82.4)%	0.12	0.28	(57.1)%
Total	3.09	2.95	4.7%	6.24	5.95	4.9%
Operating expenses and general and administrative expenses (US\$ millions)	44	29	51.7%	80	55	45.5%
Operating expenses and general and administrative expenses per tonne of output (US\$/tonne)⁽¹⁾	14.24	9.83	44.9%	12.82	9.24	38.7%
Operating expenses and general and administrative expenses per tonne of throughput (US\$/tonne)⁽²⁾	13.71	9.29	47.5%	12.25	8.95	36.9%

(1) Output is the volume of petroleum products produced;

(2) Throughput is the volume of crude oil refined.

The main contributors to the growth of operating expenses and general and administrative expenses per tonne during the periods being analysed at the Komsomolsk and Tuapse refineries and mini-refineries were rent fees, wages and salaries, insurance expenses and the real rouble appreciation of 24.7%.

The table below sets forth Rosneft's petroleum products output, operating expenses and general and administrative expenses at the Angarsk, Achinsk, Kuibyshev, NovoKuibyshevsk and Syzran refineries for the periods analysed:

	For the three months ended 30 June		change	For the six months ended 30 June		change
	2008	2007	%	2008	2007	%
Petroleum products output	(millions of tonnes)			(millions of tonnes)		
High octane gasoline	0.83	0.35	135.8%	1.88	0.35	434.2%
Low octane gasoline	0.38	0.21	80.8%	0.84	0.21	299.7%
Naphtha	0.51	0.18	175.9%	0.95	0.18	413.9%
Diesel fuel	2.89	1.19	143.3%	6.03	1.19	407.7%
Fuel oil	2.32	1.01	128.7%	5.13	1.01	405.6%
Jet fuel (kerosene)	0.37	0.00	-	0.63	0.00	-
Petrochemicals	0.21	0.00	-	0.42	0.00	-
Other	0.35	0.63	(44.3)%	0.79	0.63	25.7%
Total	7.86	3.58	119.6%	16.67	3.58	365.6%
Operating expenses and general and administrative expenses (US\$ millions)	306	123	148.8%	575	123	367.5%
Operating expenses and general and administrative expenses per tonne of output (US\$/tonne)⁽¹⁾	38.93	34.36	13.3%	34.49	34.36	0.4%
Operating expenses and general and administrative expenses per tonne of throughput (US\$/tonne)⁽²⁾	36.17	32.20	12.3%	32.07	32.20	(0.4)%

(1) Output is the volume of petroleum products produced;

(2) Throughput is the volume of crude oil refined.

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

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

	For the three months ended 30 June		change	For the six months ended 30 June		change
	2008	2007	(%)	2008	2007	(%)
Cost of procurement of crude oil from third parties by the downstream segment (US\$ millions)	572	235	143.4%	1,182	493	139.8%
Procurement of crude oil from third parties by the downstream segment (millions of barrels) ⁽¹⁾	13.32	11.06	20.4%	28.75	22.06	30.3%
Cost of procurement of gas (US\$ millions)	17	8	112.5%	28	18	55.6%
Procurement of gas (bcm)	0.15	0.22	(31.8)%	0.42	0.52	(19.2)%
Cost of procurement of petroleum products from third parties by the upstream and downstream segments (US\$ millions) ⁽²⁾⁽³⁾	167	111	50.5%	305	169	80.5%
Procurement of petroleum products from third parties by the upstream and downstream segments (millions of tonnes) ⁽⁴⁾⁽⁵⁾	0.22	0.32	(31.2)%	0.42	0.47	(10.6)%
Cost of procurement of petrochemicals from third parties by the downstream segment (US\$ millions)	16	-	-	24	-	-
Procurement of petrochemicals from third parties by the downstream segment (millions of tonnes)	0.01	-	-	0.05	-	-
Cost of refining of crude oil under processing agreements (US\$ millions)	-	44	-	2	198	(99.1)%
Volumes of crude oil refined under processing agreements (millions of tonnes)	-	1.37	-	0.03	5.24	(99.4)%
Refining fees per tonne (US\$) ⁽⁶⁾	-	32.12	-	63.17 ⁽⁷⁾	32.56	94.0%
Total cost of purchased oil, gas, petroleum products and refining costs (US\$ millions)	772	398	94.0%	1,541	878	75.5%

- (1) The Company purchased crude oil from Udmurtneft of 0.20 million tonnes, Nafta Sib & Co of 0.11 million tonnes, Tomskneft of 1.35 million tonnes, Tomsk-Petroleum-und-Gaz of 0.04 million tonnes and ATEK of 0.05 million tonnes and recognized purchases by Sakhalin-1 of 0.07 million tonnes the second quarter of 2008. In six months ended June 30, 2008 the Company purchased crude oil from Udmurtneft of 0.39 million tonnes, Nafta Sib & Co of 0.21 million tonnes, Tomskneft of 3.11 million tonnes, Tomsk-Petroleum-und-Gaz of 0.09 million tonnes, Samarainvestneft of 0.01 million tonnes and ATEK of 0.05 million tonnes and recognized purchases by Sakhalin-1 of 0.07 million tonnes. In the second quarter of 2007 and in the first half of 2007 Rosneft purchased crude oil from Udmurtneft of 11.06 million barrels and 22.06 million barrels respectively.
- (2) Including cost of procurement of petroleum products from third parties by recently acquired downstream subsidiaries, amounting to US\$ 69 million in the second quarter of 2008, US\$ 43 million in the second quarter of 2007, US\$ 133 million for the first half of 2008 and US\$ 43 million in the first half of 2007.
- (3) 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 under — “Key Financial Ratios”.
- (4) Including volumes of procurement of petroleum products from third parties by recently acquired downstream subsidiaries, amounting to 0.09 million tonnes in the second quarter of 2008, 0.14 million tonnes in the second quarter of 2007, US\$ 0.17 million for the first half of 2008 and US\$ 0.14 tonnes in the second quarter of 2007.
- (5) In the second quarter of 2008 average price of procurement of petroleum products from third parties by the upstream and downstream segments was higher than the average selling price of petroleum products due to differences in the mix of procured and sold petroleum products.
- (6) From the date of purchase of the Angarsk, Achinsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery by Rosneft in May 2007, the refinery costs are reflected in operating expenses, taxes, depreciation and amortisation, and general and administrative costs. For the second quarter of 2008 and 2007, refinery costs included in operating expenses were US\$ 272 million and US\$ 109 million, respectively, refinery costs included in taxes were US\$ 31 million and US\$ 7 million, respectively, refinery costs included in depreciation, depletion and amortisation were US\$ 117 million and US\$ 60 million, respectively, and refinery costs included in general and administrative costs were US\$ 33 million and US\$ 14 million, respectively. For the six months ended 30 June 2008, refinery costs included in operating expenses were US\$ 512 million and US\$ 109 million, respectively, refinery costs included in taxes were US\$ 60 million and US\$ 7 million, respectively, refinery costs included in depreciation, depletion and amortisation were US\$ 223 million and US\$ 60 million, respectively, and refinery costs included in general and administrative costs were US\$ 63 million and US\$ 14 million, respectively. The refinery fees paid to the former Yukos refineries also include a margin that was eliminated upon consolidation from the date of their acquisition in May 2007.
- (7) Cost of processing of crude oil in January and February of 2008 at Strezhevoy mini-refinery, a subsidiary Tomskneft, following Rosneft's sale of its 50.0% stake in Tomskneft on 27 December, 2007.

Prior to the acquisition of the Angarsk, Achinsk, Kuibyshev, NovoKuibyshevsk, Strezhevoy and Syzran refineries in May 2007, the refinery fees paid to these refineries were high relative to the refining costs

of the Tuapse and Komsomolsk refineries, in part since the processing fees charged by third parties are fully costed, while the refining costs of the Tuapse and Komsomolsk refineries exclude depreciation, which is reported in depreciation, depletion and amortisation, exclude taxes other than income tax, and other costs.

In the second quarter of 2008, the cost of purchased crude oil, gas, petroleum products and refining costs was US\$ 772 million, a 94.0% increase from US\$ 398 million in the second quarter of 2007. For the first half of 2008, the cost of purchased crude oil, gas, petroleum products and refining costs was US\$ 1,541 million, a 75.5% increase from US\$ 878 million for the first half of 2007. The overall increase was due, to a significant extent, to an increase in the cost of procuring crude oil, driven by the increase in oil prices. The overall increase was also attributable to an increase in purchases of crude oil after the acquisition of former Yukos refineries in order to reach full usage of their respective capacities, to the crude oil purchased from Tomskneft after the sale by Rosneft of its 50.0% stake in this company in December of 2007, and to an increase in prices for crude oil. These factors were partially offset by a decrease in processing costs after the acquisition of refining assets previously rendering processing services.

In the second quarter of 2008, the volume of purchased crude oil was 13.32 million barrels at a cost of US\$ 572 million. In the second quarter of 2007, the volume of purchased crude oil was 11.06 million barrels at a cost of US\$ 235 million. Due to changes in the number of suppliers, structure of purchases, varying destinations and the rise in world and domestic prices for crude oil, the average purchase price for a barrel of crude oil increased in the second quarter of 2008 by the 102.1% compared to the second quarter of 2007.

In the six months of 2008, the volume of purchased crude oil was 28.75 million barrels at a cost of US\$ 1,182 million. In the six months of 2007, the volume of purchased crude oil was 22.06 million barrels at a cost of US\$ 493 million. Due to changes in the number of suppliers, structure of purchases, varying destinations and the rise in world and domestic prices for crude oil, the average purchase price for a barrel of crude oil increased in the first half of 2008 by the 84.0% compared to the first half of 2007.

From 27 December 2007, Rosneft and Gazprom neft have each purchased 50% of the crude oil produced by Tomskneft, in which each has a 50% ownership interest. In the second quarter of 2008, Rosneft purchased crude oil from Tomskneft of 1.35 million tonnes and Gazprom neft purchased crude oil from Tomskneft of 1.37 million tonnes. In the first half of 2008, Rosneft purchased crude oil from Tomskneft 3.11 million tonnes and Gazprom neft purchased crude oil of 1.95 million tonnes. These volumes were directed to the Achinsk and to the Angarsk refineries. Rosneft purchases from Gazprom neft the crude oil it purchases from Tomskneft and sells to Gazprom neft identical volume of crude oil produced by Yuganskneftegaz at the same purchase price adjusted for transportation costs in order to maximise netbacks from refining the crude oil produced by Tomskneft, since the Achinsk and Angarsk refineries are located closer to Tomskneft's oil fields than to the Yuganskneftegaz fields. Revenues and costs of purchases related to this arrangement are shown on a net basis and only the margin is recognized in the income statement.

In certain circumstances, it may be more beneficial for Rosneft to purchase petroleum products from third parties to supply, together with its own petroleum products, Rosneft's marketing and transshipment subsidiaries. Purchase of petroleum products from third parties is exercised primarily to satisfy the needs of Rosneft's retail subsidiaries. The volume of petroleum products purchased from third parties was 0.22 million tonnes in the second quarter of 2008 and 0.42 million tonnes for the first half of 2008 compared to 0.32 million tonnes in the second quarter of 2007 and 0.47 million tonnes for the first half of 2007.

The table below sets forth Rosneft's average price per tonne of petroleum products procured from third parties during the second quarters of 2008 and 2007.

	For the three months ended 30 June						% change		
	2008			2007			US\$ millions	millions of tonnes	Average price US\$/tonne
	US\$ millions	millions of tonnes	Average price US\$/tonne	US\$ millions	millions of tonnes	Average price US\$/tonne			
High octane gasoline	72	0.08	853.91	43	0.08	565.22	67.4%	0.0%	51.1%
Low octane gasoline	8	0.01	615.53	12	0.02	524.58	(33.3)%	(50.0)%	17.3%
Diesel fuel	40	0.05	792.27	41	0.09	461.99	(2.4)%	(44.4)%	71.5%
Fuel oil	39	0.06	643.53	15	0.13	115.59	160.0%	(53.8)%	456.7%
Jet fuel (kerosene)	0	0.00	-	0	0.00	236.04	-	-	-
Other	8	0.01	800.00	0	0.00	0.00	-	-	-
Total	167	0.22	759.09	111	0.32	346.88	50.5%	(31.3)%	118.8%

Rosneft's average price per tonne of petroleum products procured from third parties increased in the second quarter of 2008 by 118.8% compared to the second quarter of 2007. The increase was primarily due to the increase in prices for petroleum products on the domestic market, to the change in the mix of procured petroleum products and to the real rouble appreciation of 24.7%. Purchase of petroleum products from third parties by the downstream subsidiaries acquired from Yukos in April-May 2007 amounted to US\$ 69 million, or 0.09 million tonnes of petroleum products, in the second quarter of 2008 and to US\$ 43 million, or 0.14 million tonnes in the second quarter of 2007. Excluding the cost of purchases from third parties of petroleum products by the downstream subsidiaries, acquired from Yukos in April-May 2007, Rosneft's cost of procurement of petroleum products from third parties increased by 95.8% for the second quarter of 2008.

The significant increase in the price of fuel oil procured from third parties in the second quarter of 2008 was due to Rosneft purchasing fuel oil to meet its obligations under an agreement entered into with the Russian Government for shipment of approximately 50 thousand tonnes of high-quality fuel oil (that contains diesel fuel) for export to Asia. Rosneft purchased fuel oil from third parties as it currently does not produce fuel oil of sufficient quality and composition. Excluding this factor, the average purchase price of fuel oil amounted to US\$ 254.07 per tonne procured.

The table below sets forth Rosneft's average price per tonne of petroleum products procured from third parties during the first half of 2008 and 2007:

	For the six months ended 30 June						% change		
	2008			2007			US\$ millions	millions of tonnes	Average price US\$/tonne
	US\$ millions	millions of tonnes	Average price US\$/tonne	US\$ millions	millions of tonnes	Average price US\$/tonne			
High octane gasoline	107	0.13	823.08	49	0.09	566.80	118.4%	44.4%	45.2%
Low octane gasoline	18	0.03	655.38	15	0.03	519.65	20.0%	0.0%	26.1%
Diesel fuel	98	0.13	753.85	66	0.14	459.47	48.5%	(7.1)%	64.1%
Fuel oil	68	0.11	618.18	29	0.19	147.24	134.5%	(42.1)%	319.8%
Jet fuel (kerosene)	2	0.00	751.31	0	0.00	397.59	-	-	89.0%
Other	12	0.02	600.00	10	0.02	500.00	20.0%	0.0%	20.0%
Total	305	0.42	726.19	169	0.47	359.57	80.5%	(10.6)%	102.0%

Rosneft's average price per tonne of petroleum products procured from third parties increased the first half of 2008 by 102.0% compared to the first half of 2007. The increase was primarily due to the increase in prices for petroleum products on the domestic market, to change in the mix of procured petroleum products and to the real rouble appreciation of 24.7%. Purchase of petroleum products from third parties by the downstream subsidiaries acquired from Yukos in May-April 2007 amounted to US\$ 133 million, or 0.17 million tonnes of petroleum products in the first half of 2008 and to US\$ 43 million, or 0.14 million tonnes of petroleum products in the first half of 2007. Excluding the cost of purchase of petroleum products from third parties by downstream subsidiaries, acquired from Yukos in April-May 2007, Rosneft's cost of procurement of petroleum products from third parties increased by 82.5% for the first half of 2008.

The purchase price of petroleum products, particularly of fuel oil, may vary significantly depending on the regional markets, where the procurement is made (for example, the price for fuel oil in the Far East market differed from the price in the Southern Russia market by almost two times). Fuel oil procurement prices paid by the Company can be higher than the price at which the Company sells its fuel oil, due to the variation in price in the various domestic markets, where the procurement of petroleum products is made.

The significant increase in the price of fuel oil procured from third parties in the second quarter of 2008 was due to Rosneft purchasing fuel oil to meet its obligations under an agreement entered into with the Russian Government for shipment of approximately 100 thousand tonnes of high-quality fuel oil (that contains diesel fuel) for export to Asia. Rosneft purchased fuel oil from third parties as it currently does not produce fuel oil of sufficient quality and composition. Excluding this factor, the average purchase price of fuel oil amounted to US\$ 248.47 per tonne procured.

General and Administrative Expenses

General and administrative expenses include wages and salaries and social benefits (except for wages of technical staff of production and refining entities), banking commissions, third-party professional service fees for advisory, legal and audit services, insurance expenses (except for insurance of oil and gas production and refining entities), lease expenses with respect to non-core property, maintenance of social infrastructure, expenses to establish allowances for doubtful accounts and other general expenses.

General and administrative expenses in the second quarter of 2008 were US\$ 431 million, 57.9% higher than the US\$ 273 million in the second quarter of 2007. This increase was mainly due to the general and administrative expenses of subsidiaries acquired from Yukos in 2007 (see “—Significant Acquisitions in the First Half of 2008 and in 2007—2007—Yukos Assets”), which totalled US\$ 101 million for the full second quarter of 2008 versus US\$ 52 for the period from the date of acquisition in May 2007.

General and administrative expenses for the first half of 2008 were US\$ 789 million, 71.9% higher than the US\$ 459 million for the first half of 2007. This increase was mainly due to the general and administrative expenses of subsidiaries acquired from Yukos in 2007 (see “—Significant Acquisitions in the First Half of 2008 and in 2007—2007—Yukos Assets”), which totalled US\$ 202 million for the first half of 2008 versus US\$ 52 in the first half of 2007, to the increase in salary expenses and real rouble appreciation.

Pipeline Tariffs and Transportation Costs

Pipeline tariffs and transportation costs include costs to transport crude oil for refining at owned 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 tariffs, handling, port fees, customs costs and other costs.

Pipeline tariffs paid by Rosneft and transportation costs increased to US\$ 1,402 million in the second quarter of 2008 from US\$ 964 million in the second quarter of 2007. This 45.4% increase was mainly due to an increase in the volume of transported crude oil and petroleum products and an increase in the pipeline and railway tariffs of natural monopolies (see “—Main Factors Affecting Results of Operations—Changes in Transport Tariffs of Natural Monopolies”).

Pipeline tariffs paid by Rosneft and transportation costs increased to US\$ 2,783 million for the first half of 2008 from US\$ 1,903 million for the first half of 2007. This 46.2% increase was mainly due to an increase in the volume of transported crude oil and petroleum products and an increase in the pipeline and railway tariffs of natural monopolies. (see “—Main Factors Affecting Results of Operations—Changes in Transport Tariffs of Natural Monopolies”).

The table below sets forth the cost per tonne of crude oil and petroleum products transported by pipeline, railway and a combination of pipeline and railway for the second quarter of 2008 and 2007:

	For the three months ended 30 June								% change between the three months ended 30 June 2008 and 2007		
	2008				2007				Volume	Cost	Cost per tonne
	Volume, mln tonnes	Share in export volumes	Cost, mln. US\$	Cost per tonne, US\$/t	Volume, mln tonnes	Share in export volumes	Cost, mln. US\$	Cost per tonne, US\$/t			
CRUDE OIL											
Export sales											
Pipeline	10.01	71.7%	324	32.37	10.51	70.4%	250	23.79	(4.7)%	29.7%	36.1%
Railway and mixed	3.95	28.3%	312	78.99	4.41	29.5%	293	66.44	(10.4)%	6.4%	18.9%
Transportation to refineries and domestic sales											
Pipeline	11.22	-	188	16.76	7.84	-	147	18.75	43.1%	27.6%	(10.6)%
Railway and mixed	1.37		152	110.95	1.29		113	87.60	6.2%	34.1%	26.7%
PETROLEUM PRODUCTS											
Export sales											
Pipeline	0.43 ⁽¹⁾	6.9%	20	46.51	0.24	6.2%	9	37.50	83.4%	127.5%	24.0%
Railway and mixed	3.60	57.2%	255	70.83	2.09	54.5%	89	42.58	70.3%	182.9%	66.3%
Other transportation expenses ⁽²⁾											
			151				63			141.4%	
Total transportation expenses and volumes											
	32.84		1,402	42.69	27.87		964	34.59	17.8%	45.4%	23.4%

- (1) Rosneft exported 2.26 million tonnes (35.9% of total export volumes) and 1.50 million tonnes (39.4% of total export volumes) of petroleum products in the second quarter of 2008 and 2007, respectively, through its own pipeline in the town of Tuapse and by sea under free-carrier conditions pursuant to which Rosneft does not bear directly transportation expenses. Operating expenses for the pipeline in Tuapse are included in Rosneft's financial statements as operating expenses.
- (2) Other transportation expenses include railroad tariffs, paid by Rosneft when petroleum products are transported from refineries to retail and marketing units.

Rosneft's crude oil export pipeline cost per tonne increased by 36.1% in the second quarter of 2008 compared to the second quarter of 2007 primarily due to an increase in the transportation tariffs charged by Transneft. Rosneft's crude oil domestic pipeline cost per tonne for transportation to refineries decreased by 10.6% in the second quarter of 2008 compared to the second quarter of 2007 due to a change in the logistics of crude oil supplies following the acquisition of new refining and production assets from Yukos. This decrease was partially offset by an increase in the transportation tariffs charged by Transneft. Rosneft's petroleum products export pipeline cost per tonne increased by 24.0% in the second quarter of 2008 compared to the second quarter of 2007, due to the increase of Transnefteprodukt's tariffs (see section "—Main Factors Affecting Results of Operations—Changes in Transport Tariffs of Natural Monopolies").

Rosneft's cost per tonne for the export of crude oil through railway and using a combination of pipeline and railway increased by 18.9% in the second quarter of 2008 compared to the second quarter of 2007 primarily due to an increase in the transportation tariffs charged by RZD. Rosneft's cost per tonne for the domestic sales of crude oil through railway and using a combination of pipeline and railway for the transportation of crude oil to the refineries increased by 26.7% in the second quarter of 2008 compared to the second quarter of 2007 due to an increase in railway tariffs of natural monopolies (see section "—Main Factors Affecting Results of Operations—Changes in Transport Tariffs of Natural Monopolies"). Rosneft's cost per tonne for the export of petroleum products through railway and using a combination of pipeline and railway increased by 66.3% in the second quarter of 2008 compared to the second quarter of 2007 due to the use of new logistical schemes following the acquisition of upstream and downstream assets from Yukos (see "—Significant Acquisitions in the First Half of 2008 and in 2007—2007—Yukos Assets") and to increased railway tariffs of natural monopolies.

The table below sets forth the cost per tonne transported by pipeline, railway and combination of pipeline and railway for the six months ended 30 June 2008 and 2007:

	For the six months ended 30 June								% change between the six months ended 30 June 2008 and 2007		
	2008				2007				Volume	Cost	Cost per tonne
	Volume, mln tonnes	Share in export volumes	Cost, mln. US\$	Cost per tonne, US\$/t	Volume, mln tonnes	Share in export volumes	Cost, mln. US\$	Cost per tonne, US\$/t			
CRUDE OIL											
Export sales											
Pipeline	19.57	72.6%	626	31.99	20.71	70.2%	493	23.80	(5.5)%	27.0%	34.4%
Railway and mixed	7.38	27.4%	586	79.40	8.79	29.8%	589	67.01	(16.1)%	(0.5)%	18.5%
Transportation to refineries and domestic sales											
Pipeline	23.49		411	17.50	14.26		278	19.50	64.7%	47.7%	(10.3)%
Railway and mixed	2.85		311	109.12	2.60		227	87.31	9.5%	37.1%	25.0%
PETROLEUM PRODUCTS											
Export sales											
Pipeline	0.85 ⁽¹⁾	6.8%	40	46.46	0.49	6.7%	19	38.83	74.8%	109.1%	19.6%
Railway and mixed	8.36	66.1%	588	70.33	4.23	57.5%	181	42.79	97.8%	225.1%	64.4%
Other transportation expenses ⁽²⁾											
			221				116			91.3%	
Total transportation expenses and volumes											
	65.93		2,783	42.21	53.70		1,903	35.44	22.8%	46.2%	19.1%

- (1) Rosneft exported 3.43 million tonnes (27.1% of total export volumes) and 2.62 million tonnes (35.8% of total export volumes) of petroleum products in the first half of 2008 and 2007, respectively, through its own pipeline in the town of Tuapse and by sea under free-carrier conditions pursuant to which Rosneft does not bear directly transportation expenses. Operating expenses for the pipeline in Tuapse are included in Rosneft's financial statements as operating expenses.
- (2) Other transportation expenses include railway tariffs, paid by Rosneft when petroleum products are transported from refineries to retail and marketing units.

Rosneft's crude oil export pipeline cost per tonne increased by 34.4% for the first half of 2008 compared to the first half of 2007 primarily due to an increase in the transportation tariffs charged by Transneft. Rosneft's crude oil domestic pipeline cost per tonne for transportation to refineries decreased by 10.3% for the first half of 2008 compared to the first half of 2007 due to a change in the logistics of crude oil supplies following the acquisition of new refining and production assets from Yukos. This decrease was partially offset by an increase in the transportation tariffs charged by Transneft. Rosneft's petroleum products export pipeline cost per tonne increased by 19.6% for the first half of 2008 compared to the first half of 2007, due to the increase of Transnefteprodukt's tariffs (see section "—Main Factors Affecting Results of Operations—Changes in Transport Tariffs of Natural Monopolies").

Rosneft's cost per tonne for the export of crude oil through railway and using a combination of pipeline and railway increased by 18.5% for the first half of 2008 compared to the first half of 2007 primarily due to an increase in the transportation tariffs charged by RZD. Rosneft's cost per tonne for the domestic sales of crude oil through railway and using a combination of pipeline and railway for the transportation of crude oil to the refineries increased by 25.0% for the first half of 2008 compared to the first half of 2007 due to an increase in railway tariffs of natural monopolies (see section "—Main Factors Affecting Results of Operations—Changes in Transport Tariffs of Natural Monopolies"). Rosneft's cost per tonne for the export of petroleum products through railway and using a combination of pipeline and railway increased by 64.4% for the first half of 2008 compared to the first half of 2007, due to the use of new logistical schemes following the acquisition of upstream and downstream assets from Yukos (see "—Significant Acquisitions in the First Half of 2008 and in 2007—Yukos Assets") and to increased railway tariffs of natural monopolies.

In the second quarter of 2008, Rosneft transported approximately 71.7% of crude oil exports through the Transneft pipeline system compared to 70.4% in the second quarter of 2007. For the first half of 2008, Rosneft transported approximately 72.6% of crude oil exports through the Transneft pipeline system compared to 70.2% for the first half of 2007.

In the second quarter of 2008 and 2007, Rosneft exported approximately 6.9% and 6.2%, respectively, of its petroleum products through the pipeline system owned and operated by OJSC AK Transneftprodukt (“**Transneftprodukt**”), a state-owned petroleum products pipeline monopoly and a subsidiary of Transneft, engaged in the transportation of petroleum products through its pipeline network in Russia and abroad. For the first half of 2008 and 2007, Rosneft exported approximately 6.8% and 6.7%, respectively, of its petroleum products through the pipeline system owned and operated by Transneftprodukt. The change in the volumes of petroleum products transported through the pipeline system in the second quarter of 2008 and the first half of 2008 was due to the enhanced use of logistics routes elaborated following the acquisition of downstream assets from Yukos (see “—Significant Acquisitions in the First Half of 2008 and in 2007—2007—Yukos Assets”), in particular the new direction - “Petropavlovsk”, and more intensive usage of “Ventspils”, “Bryansk-Ventspils” and “Novograd-Volynskiy” directions.

The overall expense per tonne for the transport of petroleum products depends on the length of the transportation route to the ultimate destination point. Petroleum products, transported via the Transneftprodukt pipeline system during the periods being analysed were produced by the Kuibyshev, NovoKuibyshev and Syzran refineries, former Yukos refineries acquired in May 2007 by Rosneft. In the second quarter of 2007 and for the first half of 2007, these refineries produced the petroleum products under the processing agreements with Rosneft, effective through the date of acquisition of these refineries in May 2007.

Rosneft also depends on railway transportation, Railway transportation services are provided by RZD, a state-owned monopoly. In the second quarter of 2008 and in the first half of 2008, Rosneft transported 28.3% and 27.4% of its export sales of crude oil and 57.2% and 66.1% of its export sales of petroleum products by rail (including railway transportation used in combination with other means of transport), respectively. In the second quarter of 2007 and in the first half of 2007, Rosneft transported 29.5% and 29.8% of its export sales of crude oil, and 54.5% and 57.5% of export sales of petroleum products by rail, respectively.

The increase in the railway transportation of export sales of petroleum products in the second quarter of 2008 and the first half of 2008 resulted from the use of new logistical schemes and transportation routes and from the restricted capacity of the pipeline system. The railway tariff per tonne paid by Rosneft increased by 12.5% and 8.8% for export sales of petroleum products in the second quarter of 2008 and for the first half of 2008, respectively, compared to the second quarter of 2007 and the first half of 2007, respectively, in Russian rouble terms. RZD’s tariffs are subject to control by FTS and to antimonopoly regulations.

Exploration Expenses

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

In the second quarter of 2008, exploration expenses increased to US\$ 49 million from US\$ 47 million in the second quarter of 2007 or by 4.3%. Exploration expenses attributable to upstream subsidiaries acquired from Yukos (see “-Significant Acquisitions in the First Half of 2008 and in 2007 – 2007 –Yukos assets”) accounted for US\$ 14 million in the second quarter of 2008 and US\$ 1 million in the second quarter of 2007 (since the date of their acquisition in May 2007).

For the first half of 2008, exploration expenses increased to US\$ 123 million from US\$ 82 million in the first half of 2007 or by 50.0%. The increase was primarily due to write-off of the exploratory wells of the Kurmangazy project and was partially offset by a decrease in expenses of Sakhalin-4 and Sakhalin-5, which were covered by the retrospective carried financing obtained from BP in 2007. Exploration expenses attributable to upstream subsidiaries acquired from Yukos (see “-Significant Acquisitions in the First Half of 2008 and in 2007 – 2007 –Yukos assets”) accounted for US\$ 27 million in the first half of 2008 and US\$ 1 million in the first half of 2007 (since the date of acquisition in May 2007).

Depreciation, Depletion and Amortisation

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

Depreciation, depletion and amortisation were US\$ 1,076 million in the second quarter of 2008 compared to US\$ 850 million in the second quarter of 2007. Depreciation, depletion and amortisation of upstream and downstream assets acquired from Yukos (see “-Significant Acquisitions in the First Half of 2008 and in 2007 – 2007 –Yukos assets”) were US\$ 309 million in the second quarter of 2008 and US\$ 158 million in

the second quarter of 2007. The carrying values of the assets acquired from Yukos were revalued upward to their fair value as a result of the purchase price allocation following the acquisition. Depreciation, depletion and amortisation also increased in the second quarter of 2008 as a result of the acquisition and the construction of oil and gas producing wells and other assets.

Depreciation, depletion and amortisation were US\$ 2,030 million for the first half of 2008 compared to US\$ 1,523 million for the first half of 2007. Depreciation, depletion and amortisation of upstream and downstream assets acquired from Yukos (see “-Significant Acquisitions in the First Half of 2008 and in 2007 – 2007 –Yukos assets”) were US\$ 539 million in the first half of 2008 and US\$ 158 million in the first half of 2007. The carrying values of the assets acquired from Yukos were revalued upward to their fair value as a result of the purchase price allocation following the acquisition. Depreciation, depletion and amortisation also increased in the first half of 2008 as a result of the acquisition and the construction of oil and gas producing wells and other assets.

Taxes Other than Income Tax

Taxes other than income tax include the mineral extraction 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 extraction 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 increased in the periods analysed mainly due to the impact of the mineral extraction tax.

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

	For the three months ended 30 June		% change (%)	For the six months ended 30 June		% change (%)
	2008	2007		2008	2007	
	(million US\$)			(million US\$)		
Mineral production tax	4,007	1,921	108.6%	7,083	3,575	98.1%
Excise tax	298	169	76.3%	611	311	96.5%
Social security	123	55	123.4%	237	103	130.1%
Property tax	67	45	48.9%	131	83	57.8%
Land tax	6	1	500.0%	13	3	333.3%
Transportation tax	1	-	100.0%	2	1	100.0%
Interest and penalties	6	27	(77.8)%	8	56	(85.7)%
Other taxes and payments	27	101	(73.3)%	40	103	(61.2)%
Total taxes other than income tax	4,535	2,319	95.6%	8,125	4,235	91.9%

Taxes other than income tax increased by 95.6% to US\$ 4,535 million in the second quarter of 2008, compared to US\$ 2,319 million in the second quarter of 2007. The growth in taxes resulted mainly from an increase in mineral extraction tax per tonne by 91.6% due to higher prices for crude oil. Excise taxes increased significantly as a result of an increase in the production of petroleum products, such as high octane gasoline and diesel fuel, following the acquisitions of downstream assets from Yukos (see “-Significant Acquisitions in the First Half of 2008 and in 2007 -2007-Yukos Assets”).

Taxes other than income tax increased by 91.9% in the six months ended 30 June 2008 to US\$ 8,125 million, compared to US\$ 4,235 million in the six months ended 30 June 2007. The growth in taxes resulted mainly from an increase in mineral extraction tax per tonne by 90.0% due to higher prices for crude oil.

In May 2007, Rosneft was included in the Russian Government’s list of strategic enterprises and organisations. As a strategic enterprise, Rosneft is eligible to restructure its tax debt to the federal budget. As such, Rosneft became generally eligible for the tax restructuring process. Following the intention Rosneft proceeded the tax restructuring in respect of Yuganskneftegaz back-taxes. These tax liabilities were already fully accrued in the consolidated financial statements in prior periods together with all penalties and interest.

In the first quarter of 2008, the Company’s Federal tax debt of RUB 57.3 billion was restructured for a period of five years (through 2012 inclusively) pursuant to an Order of the Government of the Russian Federation. In the consolidated financial statements as of and for the six months ended 30 June 2008, this liability has been reclassified as long-term and amounted to US\$ 2,132 million. As of 30 June 2008, the Company has no unsettled tax debts, fines and penalties.

According to the restructuring plan, the Company must take quarterly payments over the course of five years beginning in March 2008, in order to repay this Federal tax debt. In accordance with restructuring

plan, the Company paid RUB 1,162 million (US\$ 49.3 million at the CBR official exchange rate in effect as of the dates of payments) for the second quarter of 2008, and RUB 2,324 million (US\$ 98.7 million at the CBR official exchange rate in effect as of the dates of payments) for the first half of 2008.

The Company intends to comply with all requirements of the restructuring plan.

Export Customs Duty

Export customs duties include crude oil and petroleum product export customs duties. The export customs duties are discussed above under “—Main Factors Affecting Results of Operations—Taxation, Including Changes in Mineral Extraction Tax and Export Customs Duty.”

The following table sets forth Rosneft’s export customs duties for the periods analysed:

	For the three months ended 30 June		% change	For the six months ended 30 June		% change
	2008	2007		2008	2007	
	(US\$ millions)		(%)	(US\$ millions)		(%)
Export customs duty for crude oil	4,665	2,163	115.7%	8,115	4,475	81.3%
Export customs duty for petroleum products	1,142	351	225.4%	2,170	717	202.8%
Total export customs duties	5,807	2,514	131.0%	10,285	5,192	98.1%

The following table sets forth certain information about the export customs duty for the periods indicated.

	For the three months ended 30 June		For the six months ended 30 June	
	2008	2007	2008	2007
	(US\$ per barrel, except %)		(US\$ per barrel, except %)	
Average Urals price	117.54	65.16	105.43	59.73
Hypothetical export customs duty if calculated per formula in customs legislation, but using the average Urals price in the indicated period (i.e. without effect of time lag)	64.15	30.10	56.28	26.57
Average price of crude oil sold by Rosneft to non-CIS Countries	117.28	63.48	105.65	58.52
Hypothetical export customs duty as a percentage of average Urals prices as calculated	54.6%	46.2%	53.4%	44.5%
Actual customs duty paid by Rosneft during the period	48.70	20.90	43.76	21.88
Actual customs duty paid by Rosneft during the period as a percentage of average Urals prices	41.4%	32.1%	41.5%	36.6%
	(US\$ million, except %)		(US\$ million, except %)	
Crude oil customs duties ⁽¹⁾	4,665	2,163	8,115	4,475
Crude oil export sales ⁽²⁾	10,955	6,742	19,020	12,263
Export customs duty as % of crude oil export sales ⁽²⁾	42.6%	32.1%	42.7%	36.5%

(1) Until 1 January 2007, export customs duties were not payable on exports to CIS countries that are members of the Customs Union, which are Belarus, Kazakhstan, Kyrgyzstan and Tajikistan. Starting from 1 January 2007 export customs duties are levied on export sales to Belarus at a fractional rate of 0.293 of the general export customs rate (general export customs rate is stated in section “—Main Factors Affecting Results of Operations — Taxation Including Changes in Mineral Extraction Tax and Export Customs Duty”).

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

The impact of export customs duties on Rosneft’s margins varies from period to period depending both on the average Urals price per barrel during each period and 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 “hypothetical export customs duty as percentage of average Urals prices, as calculated” and “actual export customs duty paid by Rosneft during the period as a percentage of average Urals prices” in the preceding table.

In the second quarter of 2008 compared to the second quarter of 2007, hypothetical export customs duties increased as a percentage of average Urals prices as calculated, and actual customs duty increased as a percentage of the average Urals price. Export customs duties were US\$ 5,807 million in the second quarter of 2008 compared to US\$ 2,514 million in the second quarter of 2007. This increase was primarily due to a 63.2% growth in export volumes of petroleum products, accompanied by an increase in the rate of the export customs duty from 98.9% to 110.1% depending on the type of hydrocarbons, after taking into account the lag

in the calculation of the export customs duty rate. This increase was partially offset by a 5.8% decrease in export volumes of crude oil to Europe.

For the first half of 2008 compared to the first half of 2007, hypothetical export customs duties increased as a percentage of average Urals prices as calculated, and actual customs duty increased as a percentage of the average Urals price. Export customs duties were US\$ 10,285 million for the first half of 2008 compared to US\$ 5,192 million for the first half of 2007. This increase was primarily due to a 69.2% growth in export volumes of petroleum products, accompanied by an increase in the rate of the export customs duty from 83.1% to 91.9% depending on the type of hydrocarbons, after taking into account the lag in the calculation of the export customs duty rate. This increase was partially offset by a 9.0% decrease in export volumes of crude oil to Europe.

Operating Income

As a result of the factors discussed above, operating income increased by 122.3% in the second quarter of 2008 compared to the second quarter of 2007. As a percentage of total revenues, operating income was 28.1% and 24.8% in the second quarters of 2008 and 2007, respectively. As a percentage of revenues, operating income before taxes other than income tax and export customs duty was 77.1% and 69.6% in the second quarters of 2008 and 2007, respectively.

As a result of the factors discussed above, operating income increased by 181.0% for the first half of 2008 compared to the first half of 2007. As a percentage of total revenues, operating income was 25.7% and 18.1% for the first half of 2008 and 2007, respectively. As a percentage of revenues, operating income before taxes other than income tax and export customs duty was 74.8% and 67.7% in the first half of 2008 and 2007, respectively.

Other Income/(Expenses)

Interest Income

Interest income increased by 131.7% to US\$ 95 million in the second quarter of 2008 from US\$ 41 million in the second quarter of 2007, and increased by 116.7% to US\$ 169 million for the first half of 2008 from US\$ 78 million for the first half of 2007, which was mainly due to the growth in the Company's banking activities.

Interest Expense

Interest expense decreased by 63.2% to US\$ 163 million in the second quarter of 2008 from US\$ 443 million in the second quarter of 2007.

Interest expense decreased by 22.0% to US\$ 502 million for the first half of 2008 from US\$644 million for the first half of 2007.

The main reason for these decreases was the decrease of the LIBOR rate from 5.32% as of 30 June , 2007 to 2.46% as of 30 June 2008, accompanied by a decrease in principal amounts of loans and borrowings as of these dates.

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 in effect as of 30 June 2007) as a creditor in the Yukos bankruptcy. Out of this amount, US\$ 483 million was recorded as a repayment of debt receivable acquired earlier, US\$ 1,396 million was recorded as collection of accounts receivable, and the remaining US\$ 7,920 million was recorded as income in the consolidated statement of income. The Company used these proceeds to reduce the US\$ 22.0 billion in Company borrowings (see – “Significant Acquisitions in the First Half of 2008 and in 2007 -2007 – Yukos Assets”), as well as other borrowings.

Gain/Loss on Disposal of Property, Plant and Equipment

From time to time, Rosneft disposes of property, plant and equipment. In the second quarter of 2008, Rosneft recorded a net loss of US\$ 30 million on the disposal of property, plant and equipment compared to a net loss of US\$ 22 million recorded in the second quarter of 2007.

Loss on disposal of property, plant and equipment was US\$ 26 million in the six months ended 30 June 2008, compared to a loss of US\$ 34 million in the six months ended 30 June 2007.

Other Income/(Expenses), Net

Other expenses, net, consist principally of social expenditures and of write-offs of trade and other payables and receivables.

In the second quarter of 2008, other expenses, net, amounted to US\$ 26 million, compared to US\$ 67 million of other expenses, net, in the second quarter of 2007.

In the six months ended 30 June 2008, other expenses, net, were US\$ 28 million, compared to US\$ 118 million of other expenses, net, in the six months ended 30 June 2007. The decrease in expenses was primarily due to the write-off of US\$ 51 million of payables prompted by the expiration of the period during which claims for such payables must be made.

Foreign Exchange Losses

Foreign exchange loss was US\$ 14 million in the second quarter of 2008 compared to the gain of US\$ 16 million in the second quarter of 2007.

Foreign exchange losses were US\$ 166 million for the first half of 2008 compared to US\$ 31 million for the first half of 2007. This change resulted from the impact of an appreciation of the rouble against the US dollar together with an increase in net negative rouble-denominated monetary position in income and other tax liabilities and deferred tax liabilities as of 30 June 2008.

Income Tax Expense

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

	For the six months ended 30 June		For the three months ended 30 June	
	2008	2007	2008	2007
Effective income tax rate for Rosneft under US GAAP	25%	25%	25%	25%

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

The US GAAP effective income tax rate was 25% in each of the second quarter of 2008 and 2007 (higher than the maximum rate of 24% established by the Russian tax legislation for the periods analysed), and 25% for the first half of 2008 and 2007, respectively.

The most significant factors affecting the effective income tax rate in the second quarters of 2008 and 2007 were the impact of foreign exchange losses determined under US GAAP and fines and penalties for taxes.

Income tax was US\$ 1,470 million in the second quarter of 2008 compared to US\$ 2,500 million in the second quarter of 2007. Current income tax expense increased to US\$ 1,704 million in the second quarter of 2008 from US\$ 1,352 million in the second quarter of 2007, while deferred income tax benefits increased to an income of US\$ 234 million from the expense of US\$ 1,148 million. In the second quarter of 2008, income tax, current income tax expense and deferred income tax benefits for subsidiaries acquired from Yukos (see “- Significant Acquisition in the First Half of 2008 and 2007 – 2007- Yukos Assets”) were US\$ 148 million, US\$ 170 million and US\$ 22 million, respectively. In 2006, Rosneft recognized a deferred income tax benefit in the amount of US\$ of 1,285 million as a result of a favorable 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.

Income tax was US\$ 2,306 million in the first half of 2008 compared to US\$ 2,621 million in the first half of 2007. Current income tax expense increased to US\$ 2,808 million in the first half of 2008 from US\$ 1,588 million in the first half of 2007, while deferred income tax benefits increased to an income of US\$ 502 million from the expense of US\$ 1,033 million. In the first half of 2008, income tax, current income tax expense and deferred income tax benefits for recently acquired subsidiaries were US\$ 229 million, US\$ 264 million and US\$ 35 million, respectively.

Minority Interest in Subsidiaries' Earnings, Net of Tax

Minority interest in subsidiaries' earnings, net of tax, was US\$ 32 million in the second quarter of 2008 compared to US\$ 2 million in the second quarter of 2007. The change was due to the acquisition of minority interest in the second quarter of 2008.

Minority interest in subsidiaries' earnings, net of tax, was US\$ 38 million in the first half of 2008 compared to US\$ 3 million in the first half of 2007. The change was due to the acquisition of minority interest in the second quarter of 2008.

Net Income

As a result of the factors discussed above, net income decreased by 43.7% to US\$ 4,312 million in the second quarter of 2008 from US\$ 7,655 million in the second quarter of 2007. (See “Overview”). As a percentage of revenues, net income was 20.4% and 71.0% in the second quarters of 2008 and 2007, respectively.

For the first half of 2008 and 2007, net income decreased by 14.2% to US\$ 6,876 million in the first half of 2008 from US\$ 8,013 million in the first half of 2007. (See “Overview”). As a percentage of revenues, net income was 18.3% and 42.2% in the first half of 2008 and 2007, respectively.

Liquidity and Capital Resources

Cash Flows

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

	For the three months ended 30 June		change	For the six months ended 30 June		change
	2008	2007	%	2008	2007	%
	(US\$ millions)			(US\$ millions)		
Net cash provided by operating activities	4,873	11,698	(58.3)%	9,378	12,592	(25.5)%
Net cash used in investing activities	(3,954)	(13,702)	71.1%	(5,728)	(14,748)	61.2%
Net cash used in/provided by financing activities	1,835	2,808	(34.7)%	(743)	4,079	(118.2)%

Net Cash Provided by Operating Activities

Net cash provided by operating activities amounted to US\$ 4,873 million in the second quarter of 2008 as compared to US\$ 11,698 million in the second quarter of 2007. The decrease in net cash from operating activities resulted mainly from Yukos bankruptcy proceeds received by Rosneft in June 2007 as a creditor. The net cash from operating activities excluding Yukos bankruptcy proceeds amounted to US\$ 2,382 million in the second quarter of 2007.

The increase in net cash provided by operating activities, excluding the effect of bankruptcy proceeds, resulted mainly from an increase in net income to US\$ 4,312 million in the second quarter of 2008 from US\$ 1,636 million (in the second quarter of 2007, excluding income from Yukos bankruptcy proceedings). The net income was adjusted with changes in working capital.

The change in the working capital in the second quarter of 2008 is primary attributable to:

- Significant increase in trade receivables due to increases in sales volumes of petroleum products and increases in prices,
- a US\$ 238 million increase in inventory due to an increase in balances of crude oil and petroleum products due to increases in exploration volume and market prices,
- a US\$ 138 million increase in other accounts receivable and other non-current assets primarily due to growth in long-term VAT receivables.

This increase was partially offset by an increase in tax liabilities, including VAT and mineral extraction tax.

Net cash provided by operating activities amounted to US\$ 9,378 million for the first half of 2008 as compared to US\$ 12,592 million for the first half of 2007. The decrease in net cash from operating activities resulted mainly from Yukos bankruptcy proceeds received by Rosneft in June 2007 as a creditor. Net cash from operating activities excluding Yukos bankruptcy proceeds, amounted to US\$ 3,276 million in the first half of 2007.

The increase in net cash provided by operating activities, excluding Yukos bankruptcy proceeds, resulted from an increase in the net income (to US\$ 6,876 million for the first half of 2008 from US\$ 1,994 million for the first half of 2007). The net income was adjusted with changes in the working capital.

The change in working capital in the first half of 2008 is primary attributable to:

- A significant decrease in accounts receivable of US\$ 878 million due to
 - a decrease in export VAT, as a result of an offset of export VAT in the amount of US\$ 1,629 million during the first quarter of 2008,
 - a decrease in trade receivables which mainly resulted from settlements by letters of credit reducing the period of collection in the first quarter of 2008; this decrease was partially offset by US\$ 296 million increase in trade receivables in the first half of 2008, increase in banking loans to customers of US\$ 323 million and increase in other accounts receivable of US\$ 148 million.

The effect of the decreases in accounts receivables was partially offset by increases in other operating items during the first half of 2008 as follows:

- a US\$ 428 million increase in inventory due to an increase in balances of crude oil and petroleum products as a result of an increase in exploration volumes and market prices,
- a US\$ 462 million increase in other accounts receivable and other non-current assets primarily due to a growth in long-term VAT receivables that was partially offset by an increase in tax liability, including VAT and mineral extraction tax and other trade liabilities (including liability on dividends payments and other).

Net Cash Used in Investing Activities

Net cash used in investing activities was US\$ 3,954 million in the second quarter of 2008 compared to US\$ 13,702 million in the second quarter of 2007. Net cash used in investing activities in the second quarter of 2007 included US\$ 17,047 million cash (US\$ 16,254 million net of cash purchased) used for the acquisition of Yukos assets and US\$ 3,400 million received as an advance payment for the sale of 50.0% of Tomskneft. Capital expenditures accounted for US\$ 2,536 million in the second quarter of 2008 and US\$ 1,261 million in the second quarter of 2007.

Net cash used in investing activities was US\$ 5,728 million for the first half of 2008 compared to US\$ 14,748 million for the first half of 2007. Net cash used in investing activities for the first half of 2007 included US\$ 17,047 million cash (US\$ 16,254 million net of cash purchased) used for the acquisition of Yukos assets and US\$ 3,400 million received as an advance payment for the sale of 50.0% of Tomskneft. Capital expenditures accounted for US\$ 4,294 million for the first half of 2008 and for US\$ 2,293 million for the first half of 2007.

The increase in capital expenditures, in turn, resulted from: an increase in investments in upstream subsidiaries mainly Vankorneft and Samaraneftgaz (acquired from Yukos in 2007); the acquisition of construction materials, such as, pipes and spare parts that are used for drilling oil wells and constructing the infrastructure (see “-Capital expenditures”) and the acquisition of the equipment for construction in the Khanty-Mansiysk and Samara regions.

Net Cash (Used in)/Provided by Financing Activities

Net cash provided by financing activities was US\$ 1,835 million in the second quarter of 2008 compared to net cash provided by financing activities of US\$ 2,808 million in the second quarter of 2007.

Net cash used in financing activities was US\$ 743 million in the first half of 2008 compared to net cash provided by financing activity of US\$ 4,079 million for the first half of 2007.

The decrease in cash provided by financing activities in the second quarter and for the first half of 2008 compared to the corresponding periods of 2007 was primarily due to the receipts of proceeds of short-term debt (i.e. bridge loans) in 2007 and the repayment of the short-term debt (i.e. bridge loans) in 2008. (see “Debt Obligations”).

In the first half of 2007, Rosneft drew a significant amount of loans used for the acquisition of Yukos assets and for general corporate purposes. As a result, the cash inflow was higher in comparison with the first half of 2008.

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 analysed:

	For the three months ended 30 June		% change	For the six months ended 30 June		% change
	2008	2007		2008	2007	
	(US\$ millions)	(US\$ millions)	(%)	(US\$ millions)	(US\$ millions)	(%)
Yuganskneftegaz	749	548	36.7%	1,316	986	33.5%
Vankorskoye field	584	254	129.9%	1,098	392	180.1%
Purneftegaz	215	93	131.2%	294	144	104.2%
Severnaya Neft	60	46	30.4%	91	85	7.1%
Tomskneft	—	—	—	—	—	—
Samaraneftegaz	55	—	100.0%	79	—	100.0%
Other ¹	83	39	112.8%	162	133	21.8%
Total upstream segment	1,746	980	78.2%	3,040	1,740	74.7%
The Company	85	7	1,114.3%	102	54	88.9%
Tuapse refinery	55	16	243.8%	84	30	180.0%
Komsomolsk refinery	19	25	(24.0)%	28	32	(12.5)%
Angarsk refinery	27	—	100.0%	36	—	100.0%
Achinsk refinery	12	—	100.0%	16	—	100.0%
Syzran refinery	31	—	100.0%	37	—	100.0%
NovoKuibyshev refinery	22	—	100.0%	30	—	100.0%
Kuibyshev refinery	19	—	100.0%	26	—	100.0%
Marketing Business Units and others ²	125	51	145.1%	197	88	123.9%
Total downstream	395	99	299.0%	556	204	172.5%
Other activities³	151	19	694.7%	204	28	628.6%
Subtotal capital expenditures	2,292	1,098	108.7%	3,800	1,972	93.0%
Materials in capital expenditures	206	158	30.4%	447	316	41.5%
Licence acquisition costs	38	5	660.0%	47	5	840.0%
Total capital expenditures and acquisition of licences	2,536	1,261	101.1%	4,294	2,293	87.3%

1 Including: Krasnodarneftegaz, Stavropolneftegaz, Sakhalin 1, Grozneftegaz, VSNK and Dagneftegaz

2 Relating to companies providing processing and storage services

3 Relating to other services companies

Rosneft's total capital expenditures increased by 101.1% or by US\$ 1,275 million to US\$ 2,536 million in the second quarter of 2008 compared to US\$ 1,261 million in the second quarter of 2007. This increase was primarily driven by the upstream segment, where capital expenditures increased by 78.2%, or by US\$ 766 million, accompanied by a US\$ 296 million increase in capital expenditures in the downstream segment. The growth in the upstream segment was mainly attributable to capital expenditures in the Vankorskoye field, Purneftegaz and in Samaraneftegaz, which was acquired by Rosneft in May 2007. The growth in capital expenditures in the downstream segment was mainly attributable to the Achinsk, Angarsk, Syzran, Kuibyshev and NovoKuibyshevsk refineries, that Rosneft acquired in May 2007, to new marketing business units acquired by Rosneft in 2007, as well as to the modernisation programme launched at the Tuapse refinery. In addition, the Company's capital expenditures in the downstream segment increased as a result of increases in advances made for delivery of the gas-turbine equipment in 2008.

Capital expenditures for other activities increased by 694.7%, or by US\$ 132 million, in the second quarter of 2008, compared to US\$ 19 million in the second quarter of 2007. The increase for other activities resulted, primarily, from a growth in capital expenditures of service companies, such as RN-Burenie, Sanatory "Neftyanik Kubany" and other companies.

Rosneft's total capital expenditures increased by 87.3% or by US\$ 2,001 million to US\$ 4,294 million for the first half of 2008 compared to US\$ 2,293 million for the first half of 2007. This increase was primarily driven by the upstream segment, where capital expenditures increased by 74.7%, or by US\$ 1,300 million, accompanied by a US\$ 352 million increase in capital expenditures in the downstream segment. The growth in the upstream segment was mainly attributable to capital expenditures in the Vankorskoye field, Purneftegaz and

in Samaraneftgaz, which was acquired by Rosneft in May 2007. The growth in capital expenditures in the downstream segment was mainly attributable to the Achinsk, Angarsk, Syzran, Kuibyshev and NovoKuibyshevsk refineries, that Rosneft acquired in May 2007, to new marketing business units acquired by Rosneft in 2007, as well as to the modernisation programme launched at the Tuapse refinery. In addition, the Company's capital expenditures in the downstream segment increased as a result of increases in advances made for delivery of the gas-turbine equipment in 2008. .

Capital expenditures for other activities increased by 628.6%, or by US\$ 176 million, in the first half of 2008, compared to US\$ 28 million in first half of 2007. The increase for other activities resulted, primarily, from a growth in capital expenditures of service companies, such as RN-Burenie, Sanatory "Neftyanik Kubany" and other companies.

Since the fourth quarter of 2006, the Company's subsidiaries purchase construction materials and sell such materials to contractors that provide construction and drilling services on subsidiaries' wells. The net increase in unused construction materials amounting to US\$ 447 million and US\$ 316 million in the first half of 2008 and 2007, respectively, is included in capital expenditures as investing activity cash outflow.

The licence acquisition costs in the first half of 2008 were attributable to the acquisition of a licence for the exploration and production in Umotkinsky Block. In the first half of 2007 the licence costs related to licences for explorations and production of crude oil and gas in the Samarsky, Khanty-Mansyski, Krasnoyarsky, Tomsk and Irkutsk regions and Udmurtya.

For the first half of 2008 and in the second quarter of 2008, the total amount of capital investments related to the assets acquired from Yukos (see –"Significant Acquisitions in the First Half of 2008 and in 2007-2007- Yukos Assets") was US\$ 253 million and US\$ 169 million, respectively, including US\$ 96 million and US\$ 72 million in the upstream segment, US\$ 145 million and US\$ 87 million in the downstream segment and US\$ 12 million and US\$ 10 million in the other segment, respectively.

Debt Obligations

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

In March-May 2007, Rosneft drew US\$ 22.0 billion of bridge loans to participate in auctions for the sales of Yukos assets and for general corporate purposes. In February 2008, Rosneft refinanced US\$ 2.97 billion of these bridge loans with a 5-year loan received from a consortium of international banks in the amount of US\$ 3 billion, bearing interest of LIBOR plus 0.95% per annum. In March 2008 Rosneft repaid another US\$ 2.23 billion of the last outstanding bridge loan out of its own free operating cash flow. Remained part of bridge loan was partially refinanced in amount of US\$ 2.85 billion in July 2008 by a 5 year syndicated loan received from a consortium of international banks, bearing interest of LIBOR plus 1.25% per annum. As a result part of short term bridge loan reclassified to long-term loans as of 30 June, 2008. Another \$1.35 billion part of the bridge loan was refinanced through the short-term REPO transaction. As of 30 June 2008, the amount outstanding under this short-term bridge financing facility which was not refinanced was US\$ 3.65 billion bearing an interest of LIBOR plus 0.5% per annum.

Rosneft's total loans and borrowings decreased to US\$ 26,676 million as of 30 June 2008 from US\$ 27,273 million as of 31 December 2007.

As of 30 June 2008, the bank loans raised to finance the acquisition of Yuganskneftgaz were comprised of a long-term loan obtained through a government-owned bank at a rate of LIBOR plus 0.7% per annum repayable in equal monthly instalments. It is scheduled for repayment in 2011 and is secured by pledging the Company's receivables under a long-term contract for the supply of crude oil.

Long-term loans are generally secured by oil export contracts. Under the terms of such contracts, if the Company fails to repay debt in time, the lender is usually provided with an express right of claim for contractual revenue that must be remitted directly to US dollar denominated accounts opened with the lender's banks. As of 30 June 2008 and 31 December 2007, 46.2% and 37.1%, respectively, of Rosneft's borrowings were secured by crude oil export contracts (excluding export to the CIS). As of 30 June 2008 and 31 December 2007, pledged oil exports constituted 46.6% and 31.7%, respectively, of the total crude oil export sales for the period in question (excluding export to the CIS).

Rosneft's short-term borrowings (including the current portion of long-term debt) decreased to US\$ 13,383 million as of 30 June 2008, from US\$ 15,550 million as of 31 December 2007. US dollar-denominated short-term loans mostly represent loans received from a consortium of international banks, bearing an interest of LIBOR plus 0.5% per annum, loans received from Russian state controlled banks in the amount of US\$ 999 million bearing interest of 6.75%-7.0% per annum and inter-bank loans entered into by the Company's banking subsidiary VBRR, bearing an interest of 3.60% - 6.85% per annum.

In the first quarter of 2008, the Company used its right to extend the repayment of the bridge financing facility received from a consortium of international banks for US\$ 6.5 billion at a rate of LIBOR plus 0.5%.

The Company's rouble-denominated loans consist of inter-bank loans raised by the Company's banking subsidiary VBRR bearing interest from 3.75% to 10.0% per annum.

In June 2008, the Company signed REPO agreement with syndicate of international banks for amount of US\$ 2,350 million for one year under interest rate of 5.76% per annum. Under this agreement the Company passed 412.86 million shares of own stock as a pledge for this debt. In the consolidated financial statements these shares reported under separate item "Treasury pledged shares".

As of 30 June 2008, the Company's long-term and short-term debt assumed through the direct acquisition of new assets amounted to US\$ 1,915 million. Assumed debt includes promissory notes (nominal value and accrued interest) in the amount of US\$ 1,733 million, of which US\$ 1,107 million were long-term promissory notes and US\$ 626 million were short-term promissory notes. Short-term promissory notes included approximately US\$ 954 million due on demand (including promissory notes issued by Yuganskneftegaz), which, if presented for payment and paid, could affect Rosneft's liquidity.

As discussed in Note 15 to the Interim Financial Statements, the Company must comply with a number of restrictive financial and other covenants, including the maintenance of certain financial ratios, pursuant to its loan agreements. Due to the Company's acquisition in December 2004 of Yuganskneftegaz and its assets and liabilities, including consolidated contingent liabilities and to the resulting debt incurred to finance such acquisition, the Company was not in compliance with various financial and other covenants of existing loan agreements as of December 2004. In July 2005, the Company obtained waivers from the respective creditors related to the violation of restrictive financial ratios, and these creditors agreed to amend the financial ratio covenants in line with Rosneft's new structure and scope of activities. The creditors also waived other events of default arising from the breach of other covenant provisions. With effect from 1 January 2007, the creditors granted amendments to the loan agreements which remove these provisions and have included new waivers which state that the Company must:

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

The above conditions also apply to certain new borrowings obtained in 2007 and the first half of 2008. As of 30 June 2008, following the amendments granted in December 2007 (discussed above), the Company was in compliance with all restrictive financial and other covenants contained within its loan agreements.

In November 2007, Rosneft obtained waivers from its principal lenders, effective through 3 January 2009, in respect of the non-satisfaction by Samaraneftegaz of two arbitral awards of the ICC International Court of Arbitration in favour of Yukos Capital S.a. r.l. and the sale of a 50% interest in Tomskneft on 27 December, 2007.

The following table shows the scheduled maturities of Rosneft's long-term debt outstanding as of 30 June 2008:

	<u>(US\$ millions)</u>
Before 31 December 2008	1,715
2009	5,440
2010	4,483
2011	2,610
2012	1,924
2013 and after	771
Total long-term debt	<u>16,943</u>

In July 2008, the Company early repaid loans received from Russian state- controlled banks in the amount of US\$ 1.0 billion.

Also in July 2008, RN-Razvitie ("RN-Razvitie"), a wholly owned subsidiary of Rosneft, early repaid a portion of the last tranche of the bridge financing in the amount of US\$ 4.2 billion which was received from a consortium of international banks in 2007.

As of June 20, 2008 the Company accumulated approximately US\$ 1.3 bln in bank deposits which mature before September 15. This cash will be used to repay September tranche of bridge financing.

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	
	2008	2007	2008	2007
EBITDA margin	33.4%	33.2%	31.3%	28.0%
Adjusted net income margin before minority interest	20.4%	15.8%	18.3%	12.6%
Net debt to capital employed ratio	0.39	0.53	0.39	0.53
Net debt to adjusted EBITDA ratio, annualised	0.81	1.73	0.97	2.33
Current ratio	0.89	0.56	0.89	0.56
		(US\$)		
EBITDA/bbl	40.16	20.89	33.39	16.67
EBITDA/boe	36.93	18.52	30.45	14.60
Upstream capital expenditure/bbl	9.94	5.72	8.64	5.45
Upstream capital expenditure/boe	9.14	5.07	7.88	4.77
Upstream operating expenses/bbl	3.31	3.29	3.25	3.27
Upstream operating expenses/boe	3.05	2.92	2.97	2.86
Adjusted free cash flow before interest/bbl	13.31	6.54	14.45	3.07
Adjusted free cash flow before interest/boe	12.24	5.79	13.17	2.69

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

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

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

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

Adjusted free cash flow/bbl and adjusted free cash flow/boe are calculated for any period by dividing adjusted free cash flow during that period by the barrels of crude oil or barrels of oil equivalent, respectively, produced during that period. Adjusted free cash flow is net cash provided by operating activities minus capital expenditures. 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. One of these entities, Yukos-Mamontovo, was transferred to Rosneft in April 2007 pursuant to a court decision, and amounts in respect of these operating leases are excluded as intersegment transactions going forward. Rosneft believes these exclusions are appropriate because if the leased oil and gas facilities were owned by the upstream segment instead of being leased from another segment, depreciation expense would be accrued instead of lease expense, and that depreciation expense would not be included in upstream operating expenses.

The following tables set forth relevant numbers relating to these measures for and as of the periods indicated:

Upstream Measures

	For the three months ended 30 June		For the six months ended 30 June	
	2008	2007	2008	2007
Upstream capital expenditures ⁽¹⁾ (US\$ millions)	1,746	980	3,040	1,740
Upstream operating expenses (US\$ millions)	582	565	1,145	1,043
Barrels of crude oil produced (millions)	175.61	171.35	351.95	319.27
Barrels of oil equivalent produced (millions)	190.96	193.31	385.89	364.63

(1) Excluding licence acquisition costs.

Calculation of Adjusted Free Cash Flow

	For the three months ended 30 June		For the six months ended 30 June	
	2008	2007	2008	2007
	(US\$ millions)			
Net cash provided by operating activities	4,873	11,698	9,378	12,592
Capital expenditures ⁽¹⁾	(2,498)	(1,256)	(4,247)	(2,288)
Free cash flow	2,375	10,442	5,131	10,304
License acquisition costs	(38)	(5)	(47)	(5)
Net proceeds from Yukos bankruptcy	-	(9,316)	-	(9,316)
Adjusted free cash	2,337	1,121	5,084	983

(1) Excluding licence acquisition costs.

Calculation of EBITDA Margin¹

	For the three months ended 30 June		For the six months ended 30 June	
	2008	2007	2008	2007
	(US\$ millions, except %)			
Net income (before minority interests)	4,344	7,657	6,914	8,016
Income tax expense	1,470	2,500	2,306	2,621
Total other (income)/expenses	131	(7,483)	429	(7,203)
Operating income	5,945	2,674	9,649	3,434
Interest accrued in relation to Yuganskneftegaz tax liabilities for 1999-2004	-	45	-	342
Accretion expense	31	12	71	23
Depreciation, depletion and amortisation	1,076	850	2,030	1,523
Adjusted EBITDA	7,052	3,581	11,750	5,322
Total revenues	21,134	10,785	37,502	19,005
Adjusted EBITDA margin	33.4%	33.2%	31.3%	28.0%

¹ In 2007 the EBITDA margin is adjusted for the effect of interests accrued in relation to Yuganskneftegaz tax liabilities

Calculation of Adjusted Net Income Margin

	For the three months ended 30 June		For the six months ended 30 June	
	2008	2007	2008	2007
	(US\$ millions, except %)			
Net income	4,312	7,655	6,876	8,013
Interest accrued in relation to Yuganskneftegaz tax liabilities for 1999-2004	-	67	-	399
Income from Yukos bankruptcy proceeds	-	(7,920)	-	(7,920)
Income tax from Yukos bankruptcy proceeds	-	1,901	-	1,901
Adjusted net income	4,312	1,703	6,876	2,393
Sales revenues	21,134	10,785	37,502	19,005
Adjusted net income margin	20.4%	15.8%	18.3%	12.6%

Current ratio

	For the six months ended 30 June	
	2008	2007
	(US\$ millions, except ratio)	
Current assets	18,767	16,928
Current liabilities	21,147	30,453
Current ratio	0.89	0.56