



ROSNEFT

O I L C O M P A N Y

OPEN JOINT STOCK COMPANY

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED 31 MARCH 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 31 March 2008 and 2007 (the "Interim Financial Statements"). Such terms as "Rosneft," "Company" and "Group" in their different forms in this report mean OJSC Rosneft and its consolidated subsidiaries and affiliated companies. This report presents Rosneft's financial condition and results of operations on a consolidated basis. This report contains forward-looking statements that involve risks and uncertainties. Rosneft's actual results may 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.

In the first quarters of 2008 and 2007, Rosneft produced 2,124.84 thousand barrels of crude oil per day (26.43 million tonnes in the first quarter of 2008) and 1,715.33 thousand barrels of crude oil per day (21.10 million tonnes in the first quarter of 2007), respectively. Rosneft also produced 3.39 bcm of gas and 3.99 bcm of gas in the first quarters of 2008 and 2007, respectively.

Since 27 December 2007 Rosneft accounts for OJSC Tomskneft VNK (“Tomskneft”) via equity method and 50.0% of Tomskneft production in the amount of 114.16 thousand barrels of crude oil per day (1.42 million tonnes for the first quarter of 2008) and 0.22 bcm of gas in the first quarter of 2008 are included into Rosneft production. 100% of Tomskneft crude oil production was 228.32 thousand barrels of crude oil per day (2.84 million tonnes for the first quarter of 2008). 100% of Tomskneft gas production was 0.44 bcm for the first quarter of 2008

In the first quarters of 2008 and 2007, Rosneft sold approximately 53.9% and 72.1%, 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 OJSC Rosneft-Tuapse refinery (“**Tuapse refinery**”) and OJSC 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\$ 16,368 million in the first quarter of 2008 from US\$ 8,220 million in the first quarter of 2007. This increase resulted primarily from an increase in oil 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 total revenues excluding estimated revenue from recently acquired subsidiaries¹ were US\$ 12,981 million in the first quarter of 2008.

Rosneft's net income increased to US\$ 2,564 million in the first quarter of 2008 from US\$ 358 million in the first quarter of 2007 as a result of an increase in oil prices, an increase in oil production and improved margins.

Post balance sheet events

In April 2008, due to the successful syndication of the long-term loan received in February 2008, the Company attracted an additional US\$ 425 million.

In June 2008 the Company made scheduled repayment of short-term loan in the amount of US\$ 250 mln from own funds to OJSC Bank VTB.

¹ In this document “recently acquired subsidiaries” means assets acquired from Yukos in 2007 and other acquisitions of 2007 and 2008 prior to 31 March 2008.

On June 5, 2008, the annual general shareholders' meeting approved dividends on the Company's common shares for 2007 in the amount of RUB 16,957 million or RUB 1.60 per share (US\$ 712 million or US\$ 0.07 per share at the CBR official exchange rate as of the declaration date). The dividends for 2007 represent an increase of US\$ 170 million, or approximately 31.3%, compared to the amount of dividends paid in 2006.

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” segment and include banking and financial services and drilling and construction services provided to third parties.

Intersegment Sales and Segment Presentation

Rosneft's two main business segments are interconnected: the majority of the revenues of one main segment is included in the expenses of the other main segment. In particular, the holding company, OJSC Oil Company Rosneft, buys crude oil from its production subsidiaries, part of which it sells 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 18 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 Arkhangelsknefteprodukt, OJSC Nakhodkanefteprodukt and OJSC Tuapsenefteprodukt (the “Merged Subsidiaries”) were merged into the Company by means of the Share Swap. Following the merger, the Company became the legal successor to the rights and obligations of the Merged Subsidiaries to the extent provided by Russian law. The Company leases the business units, which are the assets previously owned by the Merged Subsidiaries (the “Business Units”), to wholly owned subsidiaries of the Company, which are limited liability operating and service companies each corresponding to a Merged Subsidiary and which operate these assets under service agreements. Revenues and costs from operations of the seven Merged Subsidiaries previously engaged in exploration and production were and continue to be accounted for under the upstream segment.

Revenues and costs from operations of the five Merged Subsidiaries previously involved in refining and marketing were and continue to be accounted for under the downstream segment.

Significant Acquisitions in 2007 and the First Quarter of 2008

First Quarter of 2008

Acquisition of lease rights

In January 2008, one of the Company's subsidiaries 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 as of 31 December 2007). The land plots are expected to be used for construction of gas stations.

2007

Purchase of Yukos Assets

In April-August 2007, Rosneft acquired upstream, downstream and other assets of Yukos through auctions held in connection with Yukos' bankruptcy proceedings. In June-July 2007, Rosneft also acquired certain 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, shares in various companies and promissory notes of Yuganskneftegaz it acquired in the auctions and thereafter (including US\$ 7.65 billion for a 9.44% stake 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 in the acquisitions accounted for as business combinations (subject to adjustment in subsequent periods), total goodwill of US\$ 4.33 billion is attributed to the downstream segment (US\$ 2.88 billion), and 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 have 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.

On 27 December 2007, Rosneft sold a 50% stake in Tomskneft as well as other related assets to Gazpromneftfinance a subsidiary of Gazprom. Since the date of sale, the Company has accounted 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 group companies such as Tomskneft and Samaraneftegaz, loans receivable, and other receivables. Rosneft purchased these assets for a total consideration of RUB 11.56 billion (US\$ 0.45 billion at the CBR exchange rate in effect at the date of payment).

Transportation 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 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 at the date of payment).

Southern Russia Marketing and Power Generation Assets

On 2 July 2007, Neft-Aktiv purchased marketing and power generation companies formerly owned by Yukos and located in Southern Russia 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 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 the payment).

Samara Upstream and Downstream Assets

On 10 May 2007, Neft-Aktiv won the auction for the sale of certain exploration and production and refining and marketing assets of Yukos in the Samara region. Neft-Aktiv purchased these assets for a total consideration of RUB 165.53 billion (US\$ 6.42 billion at the CBR exchange rate in effect 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 LLC (“**RN-Razvitie**”), a wholly owned subsidiary of the Company, won the tender for the purchase of 9.44% of the share capital of the Company and promissory notes of Yuganskneftegaz with a face value of RUB 3,558 million (US\$ 138 million at the CBR exchange rate in effect at the date of the payment) from Yukos for a total consideration of RUB 197.84 billion (US\$ 7.65 billion at the CBR exchange rate in effect at the date of the 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 the London inter-bank offered rate (“**LIBOR**”) plus 0.25-0.50% per annum, depending on the final repayment date. These loans were drawn to finance the purchase of the treasury stock and other Yukos assets

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 nearly 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 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.

Other Significant Acquisitions

Verkhnechonskneftegaz

In January 2007, the Company purchased 339,582 newly issued ordinary shares of Verkhnechonskneftegaz 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 OJSC Verkhnechonskneftegaz (“**Verkhnechonskneftegaz**”), an exploration and production company 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 Verkhnechonskneftegaz. 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 Vankor Ltd

In October 2007, Anglo Siberian Oil Company Limited, the Company’s wholly owned indirect subsidiary, bought 100% of the shares of E&P Vankor Ltd for US\$ 88 million. E&P Vankor Ltd is the beneficiary of a successful legal claim against Anglo Siberian Oil Company Limited. The Company accrued US\$ 134 million in respect of this claim as of 31 December, 2006. E&P Vankor Ltd does not own any other significant assets and has no liabilities other than a related tax liability of US\$ 46 million. Accordingly this transaction has been accounted for as an asset acquisition.

Filling Stations in the Moscow Region

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

Filling 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 filling 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 that 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.

Ohinskaya TETS

In January 2007, the Company purchased 85.61% of the ordinary shares of OJSC Ohinskaya TETS (“**Ohinskaya TETS**”), a cogeneration plant mainly servicing the production activities of RN-Sakhalinmorneftegaz LLC, Rosneft’s wholly owned exploration and production subsidiary, 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 Ohinskaya 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 Ohinskaya 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 will design, construct and operate oil terminals in Burgas (Bulgaria) and Alexandroupolis (Greece), which will be connected by a pipeline crossing the territories of Greece and Bulgaria. The Company has no funding commitments in connection with this joint venture.

Licences Won at Auctions

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

Umotkinskiy Block

In February 2008, the Company won an auction for the right to explore and produce hydrocarbons in the Umotkinskiy Block located in the Irkutsk region. The total consideration amounted to RUB 1.12 billion (US\$ 47 million at the CBR exchange rate as of 31 March 2008) and was fully paid in cash in April 2008. The licence was granted in May 2008 and expires in April 2033.

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.

Preobrazhenskiy Block

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

Zapadno-Chonsky and Verhneichersky 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 Verhneichersky 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 Verhneichersky 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, Samaraneftgaz, 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 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 production of oil and gas condensate, 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 railroad 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 netbacks 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 quarter 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 oil of other producers that is of a different quality. The resulting Urals blend is traded at a discount to Brent. Russian domestic market prices for crude oil are difficult to determine, mainly due to the significant intragroup turnover of the vertically integrated oil companies that dominate the market. Moreover, to the extent they exist, crude oil market prices in Russia can be significantly lower than they might otherwise be due to seasonal oversupply and regional imbalances.

The dynamics of petroleum product prices in the international and Russian markets are determined by a number of factors, the most important among them being the level of world prices for crude oil, supply and demand for petroleum products, competition in the different markets.

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

	For the three months ended 31 March		% change between the three months ended 31 March 2008 and 2007
	2008	2007	
World market	(US\$ per barrel)		
Brent	96.90	57.75	67.8%
Urals (average Med+NWE)	93.33	54.30	71.9%
Dubai-Oman	91.87	55.59	65.2%
	(US\$ per tonne)		
Premium gasoline (average NWE)	851.16	559.64	52.1%
Regular gasoline (average NWE)	841.05	553.28	52.0%
Naphtha (average Med)	825.69	533.92	54.6%
Fuel oil (average Med)	445.13	256.11	73.8%
Jet fuel (average Med)	952.00	588.66	61.7%
Gasoil (average Med)	882.66	525.79	67.9%
Russian market⁽¹⁾	(US\$ per tonne)		
Crude oil	345.29	195.24	76.9%
Fuel oil	306.58	130.74	134.5%
Diesel fuel (Gasoil)	788.09	498.48	58.1%
High octane gasoline	909.69	731.49	24.4%
Low octane gasoline	782.88	556.35	40.7%

Sources: *Platts* (world market), *Kortess* (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 999 (US\$ 41.20) per thousand cubic meters and RUB 742 (US\$ 28.21) per thousand cubic meters in the first quarters ended 31 March 2008 and 2007, respectively. 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 31 March	
	2008	2007
Rouble inflation (CPI) for the specified period ⁽¹⁾	4.8%	3.4%
Rouble/US dollar exchange rate at the beginning of the period ⁽¹⁾	24.55	26.33
Rouble/US dollar exchange rate at the end of the period ⁽¹⁾	23.52	26.01
Average rouble/US dollar exchange rate during the period ⁽¹⁾	24.26	26.31
Real appreciation/(depreciation) of the rouble against the US dollar, as calculated by Rosneft for the specified period (versus the period one year earlier)	20.8 ⁽¹⁾ %	19.1%

Source: CBR Federal State Statistics Service of Russia.

(1) Rosneft uses the following formula to determine the real exchange rate: rouble inflation for the year period plus inflation in the first quarter of 2008 *minus* the inflation in the first quarter 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 31 March			
	2008		2007	
	\$US million	% of total revenue	\$US million	% of total revenue
Total revenues	16,368	100%	8,220	100%
Export customs duty (for oil and gas sales)	3,450	21.1%	2,312	28.1
Export customs duty (for petroleum products sales)	1,028	6.3%	366	4.5%
Mineral extraction tax	3,076	18.8%	1,654	20.1%
Excise tax	313	1.9%	142	1.7%
Other taxes (including property tax)	201	1.2%	120	1.5%
Income tax	836	5.1%	121	1.5%
Total taxes	8,904	54.4%	4,715	57.4%

The mineral extraction tax and the export customs duty amounted 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 during these periods:

	For the three months ended 31 March		% change between the three months ended 31 March 2008 and 2007
	2008	2007	
Mineral extraction tax			
Crude oil (RUB per tonne)	3,306	1,903	73.7%
Crude oil (US\$ per barrel)	18.63	9.89	88.3%
Gas (RUB per thousand cubic meters)	147	147	-
Export customs duty			
Crude oil (US\$ per tonne)	314.33	180.03	74.6%
Crude oil (US\$ per barrel)	42.97	24.61	74.6%
Light and medium distilled products (US\$ per tonne)	224.07	133.60	67.7%
Fuel oil (US\$ per tonne)	120.7	71.93	67.8%

Mineral Extraction Tax

The rate of mineral extraction tax for crude oil in the three months ended 31 March 2008 and 2007 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 previous month, 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 first quarters of 2008 and 2007.

In the first quarter of 2008, the rate of mineral extraction tax for crude oil increased by 73.7%, primarily due to a 71.9% increase in average crude oil prices as compared to the first quarter of 2007.

Mineral extraction tax was US\$ 17.44 per barrel of crude oil produced and US\$ 15.78 per barrel of oil equivalent (boe) produced in the first quarter of 2008 and US\$ 11.18 per barrel of crude oil produced and US\$ 9.65 per boe produced in the first quarter of 2007.

The rate of mineral extraction tax for gas was unchanged and amounted to RUB 147 per thousand cubic meters of gas produced in the first quarter of 2008 and first quarter of 2007.

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:

- For "greenfield" crude oil projects in the Republic of Sakha (Yakutya), the Irkutsk region and the Krasnoyarsk territory, either certain mineral extraction tax-free periods for up to 10 years for new production licences and 15 years for new combined exploration and production licences, or exemption from the mineral extraction tax for up to 25 million tonnes of crude oil per licence period, whichever occurs sooner.
- 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 production tax rates apply to "brownfield" interests that are depleted by more than 80%.
- Zero mineral extraction tax 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 world oil markets of northwest Europe and the Mediterranean in US dollars per barrel of extracted crude oil (expressed in US dollars per tonne).

The table below sets forth the calculation of export customs duty in the first quarters of 2008 and 2007.

<u>Urals price</u> <u>(US\$ per tonne)</u>	<u>Export customs duty</u> <u>(US\$ per tonne)</u>
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 71.9% to US\$ 93.33 per barrel in the first quarter of 2008 from US\$ 54.30 per barrel in the first quarter of 2007, and the export customs duty for crude oil increased by 74.6% to US\$ 314.33 per tonne (US\$ 42.97 per barrel) of crude oil in the first quarter of 2008 from US\$ 180.03 per tonne (US\$ 24.61 per barrel) in the first quarter of 2007. The difference in growth between the oil price and export duty is primarily due to the Russian Government setting the rate of export customs duty every two months based on changes in the average world prices for the Urals crude oil. Export duties for petroleum products are established by the Russian Government depending on world crude oil prices.

Actual export customs duty with respect to oil sales was US\$ 38.5 per barrel of crude oil exported in the first quarter of 2008 and US\$ 22.9 per barrel of crude oil exported in the first quarter of 2007.

Prior to 1 January 2007, export duties were not payable on exports of crude oil and petroleum products to 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 below. Crude oil exports to Belarus were 7.95 million barrels in the first quarter of 2008 and 8.60 million barrels in the first quarter of 2007. Crude oil sales to countries that are exempt from the export customs duty were US\$ 116 million (2.34 million barrels) for the three months ended 31 March 2008 and US\$ 43 million (1.46 million barrels) for the three months ended 31 March 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 3.03 million barrels in the first quarter of 2008 and 4.11 million barrels in the first quarter of 2007.

Changes in Transport Tariffs

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.

Changes in tariffs on natural monopolies for transportation of oil and petroleum products for export and to domestic markets are shown in the table below.

	For the three months ended 31 March		% change between the three months ended 31 March 2008 and 2007 (1)
	2008	2007	
CRUDE OIL			
Export sales			
Transneft tariff (RUB per tonne)	415.05 – 822.56	200.90 – 687.17	19.3%
Transneft tariff (US\$ per tonne)	17.11 – 33.91	7.64 – 26.12	29.4%
Railroad tariff (RUB per tonne)	498.11 – 1,655.90	524.98 – 1,646.14	4.2%
Railroad tariff (US\$ per tonne)	20.53 – 68.26	19.96 – 62.58	13.0%
Transportation to refineries and domestic sales			
Transneft tariff (RUB per tonne)	354.36 – 996.63	306.35 – 817.04	19.6%
Transneft tariff (US\$ per tonne)	14.61 – 41.08	11.65 – 31.06	29.6%
Railroad tariff (RUB per tonne)	328.23 – 2,213.44	287.14 – 1,926.46	15.2%
Railroad tariff (US\$ per tonne)	13.53 – 91.24	10.92 – 73.23	24.9%
PETROLEUM PRODUCTS			
Export sales			
Transnefteprodukt tariff (RUB per tonne)	274.43 – 1,207.70	216.51 – 1,123.39	20.7%
Transnefteprodukt tariff (US\$ per tonne)	11.31 – 49.78	8.23 – 42.7	30.9%
Railroad tariff (RUB per tonne)	168.20 – 4,149.35	427.62 – 2,716.85	5.7%
Railroad tariff (US\$ per tonne)	6.93 – 171.04	16.26 – 103.28	14.6%

Source: AK Transneft, NK Rosneft, RZD. 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 above presents ranges of tariffs applied for major transportation routes;

- (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 “—Cost 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. 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.

In the first quarter of 2008, Rosneft transported approximately 73.6% of crude oil exports through the Transneft pipeline system compared to 69.4% in the first quarter of 2007. Detailed information on actual cost of transport per tonne transported through Transneft's pipelines is presented in section “—Cost and Expenses—Pipeline Tariffs and Transportation Costs”.

In the first quarters of 2008 and 2007, Rosneft exported approximately 6.6% and 7.1%, respectively, of its petroleum products through the pipeline system owned and operated by OJSC AK Transnefteprodukt (“**Transnefteprodukt**”) (including mixed transport – 13.2% and 12.2% correspondingly), a state-owned petroleum products pipeline monopoly, which is a Transneft’s subsidiary, engaged in the transportation of petroleum products in Russia and abroad. The change in the volumes of petroleum products transported through the pipeline system in the first quarter of 2008 was due to the enhanced usage of logistics routes introduced after the acquisition of new refining capacities (particularly, a high volume of shipments in new directions – “Novograd-Volynskiy” and “Petropavlovsk”), and more intensive usage of “Ventspils” and “Bryansk-Ventspils” 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 Transnefteprodukt pipeline system were produced by former Yukos refineries, acquired in May 2007 and located in the Samara region, namely the Kuibyshev, Novokuibyshev and Syzran refineries. In the first quarter of 2007, transported petroleum products were produced by these refineries according to processing agreements, conducted before the date of acquisition in May 2007.

Rosneft also depends on railway transportation and, thus, on Russian Railways (“**RZD**”), a state-owned monopoly provider of railway transportation services. In the first quarter of 2008, it transported 26.4% of its export sales of crude oil and 75.6% of its export sales of petroleum products by rail (including shipments for which rail transport was used as one of several means of transport), and, in the first quarter of 2007, it transported 30.6% of its export sales of crude oil and 62.2% of export sales of petroleum products by rail.

The increase in the railway transportation of export sales of petroleum products in the first quarter 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 5.7% for export sales of petroleum products in the first quarter of 2008 compared to the first quarter of 2007 in Russian rouble terms. RZD’s tariffs are subject to control by FTS and to antimonopoly regulations.

Detailed information on actual cost of transportation per tonne transported through Transnefteprodukt’s pipelines and by railroad is presented in section “—Cost and Expenses—Pipeline Tariffs and Transportation Costs”.

Production of Crude Oil, Petroleum Products and Gas

Rosneft’s ability to generate revenues depends on its production of crude oil and petroleum products. In addition, as noted elsewhere, an important part of Rosneft’s strategy is to expand its production and sale of 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 Gazprom Neft a 50.0% of stake in Tomskneft, which, from its date of acquisition in the second quarter of 2007, had been consolidated in Rosneft’s financial statements. 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 since it 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. on 31 July 2006. In addition, Rosneft produces oil at four production joint ventures (including Tomskneft), which Rosneft accounts for using the equity method. Yuganskneftegaz, Purneftegaz in Western Siberia, Samaraneftegaz and Severnaya Neft in the European part of Russia are Rosneft’s most important production and development Business Units, collectively accounting for 83.4% of the Company’s crude oil production in the first quarter of 2008. Yuganskneftegaz accounted for 61.4% and 67.4%, Purneftegaz for 8.0% and 11.1% and Severnaya Neft for 5.2% and 6.6% of Rosneft’s production in the first quarter of 2008 and 2007, respectively. Samaraneftegaz accounted for 8.8% of Rosneft’s total crude oil production in the first quarter of 2008.

The following table sets forth Rosneft's crude oil production during the first quarters of 2008 and 2007:

	For the three months ended 31 March		% change between the three months ended 31 March 2008 and 2007
	2008	2007	
	(millions of barrels)		
Crude oil production by Business Units and fully and proportionately consolidated subsidiaries ⁽¹⁾	176.34	147.92	19.2%
Crude oil production, as above, plus the share in production of joint ventures ⁽²⁾	193.36	154.38	25.2%

(1) Crude oil production by Business Units and subsidiaries includes Rosneft's net share of oil produced under the Sakhalin-1 PSA net of 8.00% royalty of 0.31 million barrels in the first quarter of 2008, and net of 2.07% Russian Government share of 0.08 million barrels in the first quarter of 2008.

(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 1.03 million barrels, 49.4% share in crude oil produced by Udmurtneft, of 5.59 million barrels, 50.0% share in crude oil produced by Tomskneft of 10.39 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 in the first quarter of 2008.

Excluding production by its joint ventures and by Samaraneftgaz and VSNK Rosneft increased production of crude oil by 7.7%, to 159.24 million barrels in the first quarter of 2008 from 147.92 million barrels in the first quarter of 2007. This organic growth was mainly due to increased output at Yuganskneftgaz, which was partially offset by the decrease in production at Purneftgaz, and a number of other upstream units (e.g. Sakhalin-1 in which the Company has a 20% share). Production by Yuganskneftgaz increased to 118.72 million barrels in the first quarter of 2008 from 103.99 million barrels in the first quarter of 2007, or by 14.2%. The Company's net *pro rata* share of oil produced under the Sakhalin-1 PSA was 3.54 million barrels in the first quarter of 2008 compared to 3.57 million barrels in the first quarter of 2007.

Samaraneftgaz and VSNK were acquired by Rosneft in May 2007 and fully consolidated from the date of acquisition. The companies produced 17.10 million barrels of crude oil in the first quarter of 2008, which contributed another 11.5% to the production growth of Rosneft's subsidiaries. Total production growth of Rosneft's subsidiaries amounted to 19.2% compared to the first quarter of 2007.

Tomskneft was also acquired by Rosneft in May 2007. Since 27 December, 2007, when it sold a 50% stake in Tomskneft, Rosneft has accounted for Tomskneft via the equity method and 50.0% of Tomskneft's production of 10.39 million barrels of crude oil in the first quarter of 2008 added 6.7% to Rosneft's total production growth, which amounted to 25.2% in comparison to the first quarter of 2007. Including its share in production of joint ventures and production of Samaraneftgaz, Tomskneft and VSNK Rosneft's crude oil production comprised 193.36 million barrels in the first quarter of 2008 compared to 154.38 million barrels in the first quarter of 2007.

In the first 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 1,822.72 thousand barrels per day as compared to 1,715.33 thousand barrels per day in the first quarter of 2007. This growth was largely attributable to the growth at Yuganskneftgaz and to the drilling of new production wells (148 in the first quarter of 2008 and 106 in the first quarter of 2007).

Production by Samaraneftgaz and VSNK contributed 187.96 thousand barrels of crude oil per day in the first quarter of 2008. Share in production by Tomskneft added another 114.16 thousand barrels per day. 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 2,124.84 thousand barrels, an increase of 23.9% compared to the first quarter of 2007.

Production of Gas

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

	For the three months ended 31 March		% change between the three months ended 31 March 2008 and 2007
	2008	2007	
	(bcm)		
Gas production by Business Units and fully and proportionately consolidated subsidiaries ⁽¹⁾	3.16	3.98	(20.6)%
Gas production, as above, plus the share in production of joint ventures ⁽²⁾	3.39	3.99	(15.0)%

(1) Gas production by Business Units and subsidiaries includes Rosneft's share of gas produced under the Sakhalin-1 PSA net of 8.00% royalty of 7.01 million cubic metres ("mmcm") in the first quarter of 2008, and net of 2.07% Russian Government share of 1.81 mmcm in the first quarter of 2008

(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, 49.4% share of Rosneft in gas produced by Udmurtneft and 50.0% share in gas produced by Tomskneft in the first quarter of 2008.

Excluding production by its joint ventures and by Samaraneftgaz and VSNK, Rosneft's gas production decreased by 22.6% to 3.08 bcm in the first quarter of 2008, caused by the reduction of gas production by Purneftegaz and Selkupneftgaz in an effort to reduce flaring at the Kynskoye and Fakhirovskoye fields. At fields of Krasnodarneftgaz Business Unit, OJSC Grozneftgaz, Severnaya Neft and Yuganskneftgaz Business Units, the production of natural and associated gas increased. Taking into consideration the production of 0.08 bcm of gas at Samaraneftgaz and VSNK, Rosneft's gas production in the first quarter of 2008 decreased by 20.6% to 3.16 bcm. Taking into consideration the share in production of its joint ventures, Samaraneftgaz and VSNK, Rosneft's gas production decreased to 3.39 bcm in the first quarter of 2008 compared to 3.99 bcm in the first quarter of 2007.

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. 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 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, Novokuibyshevsk and Syzran refineries in the Samara region. 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, Novokuibyshevsk and Syzran refineries, which Rosneft acquired in May 2007. See "—Significant Acquisitions—2007—Purchase of Yukos Assets." In December 2007, the Company sold 100% of the Strezhevoy mini-refinery to Tomskneft. Due to Rosneft's sale of a 50.0% stake in Tomskneft to Gazprom Neft on 27 December, 2007, in the first quarter of 2008, crude oil was refined at Strezhevoy mini-refinery pursuant to a processing agreement.

Rosneft also owns the OJSC "Rosneft-MZ" "Nefteprodukt" 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 product production during the first quarters of 2008 and 2007:

	For the three months ended 31 March		% change between the three months ended 31 March 2008 and 2007
	2008	2007	
	(millions of tonnes)		
Petroleum products output by the Komsomolsk and Tuapse refineries and mini-refineries ⁽¹⁾	3.15	3.00	5.0%
Petroleum products output by the acquired refineries in East Siberia and Samara (mln tonnes) ⁽²⁾	8.81	3.60 ⁽³⁾	144.7%
Total	11.96	6.60	81.2%

(1) Mini-refineries include the Purovsk, Usinsk and Strejevoy mini-refinery.

(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) Petroleum products, produced by former Yukos refineries before the acquisition date in May 2007 under processing agreements.

The total output of petroleum products, including the output of mini-refineries and the Achinsk, Angarsk, Kuibyshev, Novokuibyshevsk and Syzran refineries purchased by Rosneft in May 2007, increased by 81.2%, to 11.96 million tonnes in the first quarter of 2008 from 6.60 million tonnes in the first quarter of 2007. This increase was due to the growth in volumes of refining at Rosneft's refineries due to growth in crude oil output at Tomskneft and Samaraneftgaz which was directed for refining.

In the first quarter of 2008, the Tuapse and Komsomolsk refineries and mini-refineries processed 24.29 million barrels (3.32 million tonnes) of Rosneft-produced crude oil, yielding an aggregate of 3.15 million tonnes of petroleum products in the first quarter of 2008. The depth of refining at the Komsomolsk refinery remained almost unchanged at 59.6% in the first quarter of 2008 compared to 59.7% in the first quarter of 2007. The depth of refining at the Tuapse refinery increased to 56.7% for the first quarter of 2008 from 56.3% for the first quarter of 2007.

In the first quarter of 2008, 69.35 million barrels (9.48 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 8.81 million tonnes of petroleum products in the first quarter of 2008 for these refineries. The depth of refining ranged from 60.5% at the Kuibyshev refinery to 76.3% at the Angarsk refinery.

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 first quarters of 2008 and 2007:

	For the three months ended 31 March		% change between the three months ended 31 March 2008 and 2007		
	2008	2007	2008	2007	
	% of total revenue	% of total revenue			
(US\$ millions, except%)					
Revenues					
Oil and gas sales	8,691	53.1%	5,638	68.6%	54.2%
Petroleum products and processing fees	7,365	45.0%	2,496	30.4%	195.1%
Support services and other revenues	312	1.9%	86	1.0%	262.8%
Total revenues	16,368	100.0%	8,220	100.0%	99.1%
Cost and expenses					
Production and operating expenses	1,020	(6.2)%	542	(6.6)%	88.2%
Cost of purchased oil, gas, petroleum products and refining costs	769	(4.7)%	480	(5.8)%	60.2%
General and administrative expenses	358	(2.2)%	186	(2.4)%	92.5%
Pipeline tariffs and transportation costs	1,381	(8.4)%	939	(11.4)%	47.1%
Exploration expenses	74	(0.5)%	35	(0.4)%	111.4%
Depreciation, depletion and amortisation	954	(5.8)%	673	(8.2)%	41.8%
Accretion expense	40	(0.2)%	11	(0.1)%	263.6%
Taxes other than income tax	3,590	(21.9)%	1,916	(23.3)%	87.4%
Export customs duty	4,478	(27.4)%	2,678	(32.6)%	67.2%
Total cost and expenses	12,664	(77.4)%	7,460	(90.8)%	69.8%
Operating income	3,704	22.6%	760	9.2%	387.4%
Other income/(expenses)					
Interest income	74	0.5%	37	0.5%	100.0%
Interest expense	(339)	(2.1)%	(201)	(2.4)%	68.7%
Gain/(loss) on disposal of property, plant and equipment	4	0.0%	(12)	(0.1)%	(133.3)%
Loss/(gain) on disposal of investments	(1)	0.0%	4	0.0%	(125.0)%
Equity share in affiliates' profits/(loss)	112	0.7%	(11)	(0.1)%	1,118.2%
Dividends and income from joint ventures	6	0.0%	1	0.0%	500.0%
Other expenses, net	(2)	0.0%	(51)	(0.6)%	(96.1)%
Foreign exchange loss	(152)	(0.9)%	(47)	(0.6)%	223.4%
Total other expenses	(298)	(1.8)%	(280)	(3.4)%	6.4%
Income before income tax and minority interest	3,406	20.8%	480	5.8%	609.6%
Income tax expense	(836)	(5.1)%	(121)	(1.4)%	590.9%

	For the three months ended 31 March				% change between the three months ended 31 March 2008 and 2007
	2008		2007		
		% of total revenue		% of total revenue	
Income before minority interest	2,570	15.7%	359	4.4%	615.9%
Minority interest in subsidiaries' earnings	(6)	0.0%	(1)	0.0%	500.0%
Net income	2,564	15.7%	358	4.4%	616.2%
Other comprehensive loss	(9)	(0.1)%	-	-	100.0%
Comprehensive income	2,555	15.6%	358	4.4%	613.7%

Revenues

The table below analyses revenues from sales of crude oil, gas, petroleum products and processing fees in the first quarters of 2008 and 2007.

	For the three months ended 31 March				% change between the three months ended 31 March 2008 and 2007
	2008		2007		(%)
	US \$ millions	% of total revenue	US \$ millions	% of total revenue	
Crude oil					
Export, excluding CIS	7,867	48.0%	5,159	62.8%	52.5%
Europe and other directions	6,010	36.7%	3,930	47.8%	52.9%
Asia	1,857	11.3%	1,229	15.0%	51.1%
CIS	631	3.9%	362	4.4%	74.3%
Domestic	76	0.5%	38	0.5%	100.0%
Gas	117	0.7%	79	0.9%	48.1%
Total oil and gas	8,691	53.1%	5,638	68.6%	54.2%
Petroleum products					
Export, excluding CIS	3,974	24.3%	1,315	16.0%	202.2%
Europe and other directions	2,388	14.6%	800	9.7%	198.5%
Asia	1,586	9.7%	515	6.3%	208.0%
CIS	190	1.2%	24	0.3%	691.7%
Domestic	3,069	18.7%	1,157	14.1%	165.3%
Wholesale	2,211	13.5%	975	11.9%	126.8%
Retail	858	5.2%	182	2.2%	371.4%
Petrochemical products sales	132	0.8%	-	-	100.0%
Total petroleum and petrochemical products sales	7,365	45.0%	2,496	30.4%	195.1%
Support services and other revenues	312	1.9%	86	1.0%	262.8%
Total sales	16,368	100.0%	8,220	100.0%	99.1%

The table below analyses crude oil, gas and petroleum products sales volumes in the first quarters of 2008 and 2007.

	For the three months ended 31 March				% change between the three months ended 31 March 2008 and 2007
	2008		2007		
	mln bbls	% of total sales	mln bbls	% of total sales	
Crude oil					
Export, excluding CIS	84.71	46.9%	96.56	61.7%	(12.3)%
Europe and other directions	65.62	36.3%	74.98	47.9%	(12.5)%
Asia	19.09	10.6%	21.58	13.8%	(11.5)%
CIS	10.31	5.7%	10.10	6.5%	2.1%
Domestic	1.76	1.0%	1.39	0.9%	26.6%
Total crude oil sales	96.78	53.6%	108.05	69.1%	(10.4)%
	mln tonnes	% of total sales	mln tonnes	% of total sales	
Export, excluding CIS	11.58	46.9%	13.20	61.7%	(12.3)%
Europe and other directions	8.97	36.3%	10.25	47.9%	(12.5)%
Asia	2.61	10.6%	2.95	13.8%	(11.5)%
CIS	1.41	5.7%	1.38	6.5%	2.1%
Domestic	0.24	1.0%	0.19	0.9%	26.6%
Total crude oil sales	13.23	53.6%	14.77	69.1%	(10.4)%
Petroleum products					
Export, excluding CIS	6.03	24.5%	3.43	16.0%	75.8%
Europe and other directions	3.62	14.7%	2.16	10.1%	67.6%
Asia	2.41	9.8%	1.27	5.9%	89.8%
CIS	0.32	1.3%	0.08	0.4%	300.0%
Domestic	4.88	19.7%	3.11	14.5%	56.9%
Wholesale	4.03	16.3%	2.84	13.3%	41.9%
Retail	0.85	3.4%	0.27	1.2%	214.8%
Total petroleum product sales	11.23	45.5%	6.62	30.9%	69.6%
Petrochemical products sales	0.21	0.9%	-	-	100.0%
Total crude oil and petroleum and petrochemical product sales	24.67	100.0%	21.39	100.0%	15.3%
Gas	bcm		bcm		
Sales volumes	2.84		2.80		1.4%

Note: total volume of sales of crude oil is different from the total volume of field production due to changes in oil reserves, purchase of crude oil for resale, use 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 in the first quarters of 2008 and 2007.

	For the three months ended 31 March			
	2008		2007	
	(US\$/barrel)	(US\$/tonne)	(US\$/barrel)	(US\$/tonne)
Average export prices				
Crude oil, excluding CIS	92.87	679.36	53.43	390.83
Europe and other directions	91.59	670.01	52.41	383.41
Asia	97.28	711.49	56.95	416.61
Crude oil, CIS	61.20	447.52	35.84	262.32
Petroleum products, excluding CIS		659.04		383.38
Europe and other directions		659.67		370.37
Asia		658.09		405.51
Petroleum products, CIS		593.75		300.00
Average domestic prices				
Crude oil	43.18	316.67	27.34	200.00
Petroleum products		628.89		372.03
Wholesale		548.64		343.31
Retail		1,009.41		674.07
Petrochemicals		628.57		-
Gas (US\$/thousand cubic meter)		41.20		28.21

Revenues were US\$ 16,368 million in the first quarter of 2008, a 99.1% increase from US\$ 8,220 million in the first quarter of 2007. Revenues from the sale of crude oil and gas increased by 54.2%, and revenues from the sale of petroleum products grew by 195.1%, for the three months ended 31 March 2008 compared with the three months ended 31 March 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 19.2% increase in crude oil production by Rosneft's subsidiaries and an 81.2% increase in petroleum product production. For a discussion of the impact of acquisitions on Rosneft's production of crude oil and petroleum products, see " – Main Factors Affecting Results of Operations – Production of Crude Oil, Petroleum Products and Gas" above.

Crude Oil Export Sales to Non-CIS

In the first quarter of 2008, crude oil export revenues from exports to non-CIS countries were US\$ 7,867 million compared to US\$ 5,159 million in the first quarter of 2007, an increase of US\$ 2,708 million or 52.5%. A 73.8% increase in average prices had a positive effect on revenues of US\$ 3,341 million. This positive impact was offset by a 12.3% decrease in sales volumes, which had a negative impact on revenues of US\$ 633 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 71.9%. The decrease in crude oil sales volumes was caused by an increase in the relative 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.

Crude Oil Export Sales to CIS

In the first quarter of 2008, revenues from sales of crude oil to the CIS were US\$ 631 million compared to US\$ 362 million in the first quarter of 2007, an increase of US\$ 269 million, or 74.3%. US\$ 261 million of

this growth resulted from a 70.6% increase in prices, while the remaining increase of US\$ 8 million resulted from a 2.1% increase in volumes.

Crude Oil Domestic Sales

In the first quarter of 2008, domestic crude oil sales were US\$ 76 million compared to US\$ 38 million in the first quarter of 2007, an increase of US\$ 38 million, or 100%. US\$ 28 million of this growth resulted from a 58.3% increase in average sales prices, while US\$ 10 million was due to a 26.6% increase in volumes. 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.

Petroleum Products Exports Sales to Non-CIS

Average sales prices for petroleum products sales may significantly vary depending on the market and on the volumes dispatched. Thus average prices on European markets differ from Asian markets' prices.

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

	For the three months ended 31 March						% change between the three months ended 31 March 2008 and 2007		
	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	US\$ millions	millions of tonnes	Average price US\$/tonne
High octane gasoline	32	0.04	897.30	10	0.02	629.26	220.0%	100.0%	42.6%
Low octane gasoline	35	0.04	845.35	10	0.02	592.22	250.0%	100.0%	42.7%
Naphtha	556	0.66	839.62	244	0.46	528.08	127.9%	43.5%	59.0%
Diesel (Gasoil) fuel	1,673	1.93	866.87	614	1.22	502.47	172.5%	58.2%	72.5%
Fuel oil	1,620	3.28	493.08	430	1.70	253.68	276.7%	92.9%	94.4%
Jet fuel (kerosene)	5	0.01	894.00	3	0.00	693.20	66.7%	-	29.0%
Other	53	0.07	712.64	4	0.01	367.51	1,225.0%	600.0%	93.9%
Total	3,974	6.03	659.04	1,315	3.43	383.38	202.2%	75.8%	71.9%

Revenues from the export of petroleum products to non-CIS countries were US\$ 3,974 in the first quarter of 2008 compared to US\$ 1,315 million in the first quarter of 2007, an increase of US\$ 2,659 million, or 202.2%. US\$ 1,662 million of this growth resulted from a 71.9% increase in average prices, while US\$ 997 million was due to a 75.8% 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 73.8%. The growth in sales volumes resulted from an overall increase in production of crude oil and petroleum products.

Petroleum Products Export Sales to CIS

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

	For the three months ended 31 March						% change between the three months ended 31 March 2008 and 2007		
	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	46	0.08	593.01	2	0.00	392.29	2,200.0%	-	51.2%
Low octane gasoline	0	0.00	-	1	0.00	383.44	(100.0)%	-	(100.0)%
Naphtha	0	0.00	-	2	0.00	478.73	(100.0)%	-	(100.0)%
Diesel (Gasoil) fuel	87	0.12	711.35	9	0.02	405.93	866.7%	500.0%	75.2%
Fuel oil	43	0.10	442.91	8	0.05	184.32	437.5%	100.0%	140.3%
Jet fuel (kerosene)	2	0.00	729.29	0	0.00	-	-	-	-
Other	12	0.02	531.60	2	0.01	267.23	500.0%	100.0%	98.9%
Total	190	0.32	593.75	24	0.08	300.00	691.7%	300.0%	97.9%

Revenue from sales of petroleum products to the CIS were US\$ 190 million in the first quarter of 2008 compared to US\$ 24 million in the first quarter of 2007. US\$ 94 million of this growth was attributable to a 97.9% increase in average prices, while US\$ 72 million was due to a 300.0% increase in sales volume. The reason for growth of sales volumes is an increased demand for petroleum products in CIS. The increase in prices resulted from general growth of world market prices.

Domestic Sales of Petroleum Products

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

	For the three months ended 31 March						% change between the three months ended 31 March 2008 and 2007		
	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	843	1.00	838.86	283	0.48	586.66	197.9%	108.3%	43.0%
Low octane gasoline	303	0.43	700.05	150	0.29	509.58	102.0%	48.3%	37.4%
Naphtha	0	0.00	0.00	2	0.01	376.57	(100.0)%	(100.0)%	(100.0)%
Diesel fuel	1,270	1.75	726.11	406	0.90	453.40	212.8%	94.4%	60.1%
Fuel oil	187	0.77	242.43	105	0.78	135.04	78.1%	(1.3)%	79.5%
Jet fuel (kerosene)	170	0.23	754.66	81	0.17	470.67	109.9%	35.3%	60.3%
Other	296	0.70	423.16	130	0.48	271.55	127.7%	45.8%	55.8%
Total	3,069	4.88	628.89	1,157	3.11	372.03	165.3%	56.9%	69.0%

Revenues from sales of petroleum products on the domestic market were US\$ 3,069 million in the first quarter of 2008 (including US\$ 1,008 million revenue from the companies purchased in May 2007 as a result of Yukos bankruptcy process), compared to US\$ 1,157 million in the first quarter of 2007, an increase of US\$ 1,912 million, or 165.3%. This growth was attributable to a 69.0% increase in average prices, which

increased revenues by US\$ 1,254 million, and a 56.9% increase in sales volume, which had a positive impact on revenue of US\$ 658 million.

Excluding revenue from direct sales by new assets purchased in May 2007 as a result of the Yukos bankruptcy, the growth in revenues from domestic sales of petroleum products was attributable to a 14.5% increase in sales volumes, which had a positive impact on revenues of US\$ 167 million and a 55.6% increase in average prices, which had a positive impact on revenues of US\$ 737 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 production companies and refineries.

Petrochemical Products Sales

The revenues from the sale of petrochemical products in the first quarter of 2008 were US\$ 132 million. The Group started selling petrochemical products in May 2007 after it had acquired petrochemical facilities 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 during first quarters of 2008 and 2007.

	For the three months ended 31 March		% change between the three months ended 31 March 2008 and 2007
	2008	2007	
Revenue	(US\$ million)		
Western Siberia	34	25	36.0%
South Russia	56	34	64.7%
Far East	9	7	28.6%
European part of Russia	18	13	38.5%
Total Rosneft	117	79	48.1%
Sales volumes	(bcm)		(%)
Western Siberia	1.41	1.39	1.4%
South Russia	1.00	0.90	11.1%
Far East	0.16	0.22	(27.3)%
European part of Russia	0.27	0.29	(6.9)%
Total Rosneft	2.84	2.80	1.4%
Average price	(US\$/thousand of cubic metres)		(%)
Western Siberia	24.11	17.99	34.0%
South Russia	56.00	37.78	48.2%
Far East	56.25	31.82	76.8%
European part of Russia	66.67	44.83	48.7%
Total Rosneft	41.20	28.21	46.0%

Revenues from the sale of gas were US\$ 117 million in the first quarter of 2008, compared to US\$ 79 million in the first quarter of 2007, an increase of US\$ 38 million, or 48.1%. US\$ 37 million of this growth was attributable to a 46.0% increase in prices, the remaining US\$ 1 million being accounted for by a 1.4% increase in sales volumes, from 2.80 bcm to 2.84 bcm.

Support Services and Other Revenues

Support services and other revenues were US\$ 312 million in the first quarter of 2008 compared to US\$ 86 million in the first quarter of 2007, an increase of 262.8%. 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 of service companies acquired in the course of the Yukos bankruptcy process were US\$ 142 million.

Costs and Expenses

The following table sets forth Rosneft's costs and expenses during the first quarters of 2008 and 2007:

	For the three months ended 31 March				% change between the three months ended 31 March 2008 and 2007
	2008		2007		
	\$US million	% of total revenue	\$US million	% of total revenue	
Production and operating expenses	1,020	6.2%	542	6.6%	88.2%
Cost of purchased oil, gas, petroleum products and refining costs	769	4.7%	480	5.8%	60.2%
General and administrative expenses	358	2.2%	186	2.4%	92.5%
Pipeline tariffs and transportation costs	1,381	8.4%	939	11.4%	47.1%
Exploration expenses	74	0.5%	35	0.4%	111.4%
Depreciation, depletion and amortisation	954	5.8%	673	8.2%	41.8%
Accretion expense ⁽¹⁾	40	0.2%	11	0.1%	263.6%
Taxes other than income tax	3,590	21.9%	1,916	23.3%	87.4%
Export customs duty	4,478	27.4%	2,678	32.6%	67.2%
Total costs and expenses	12,664	77.4%	7,460	90.8%	69.8%

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

Costs and expenses were US\$ 12,664 million in the first quarter of 2008, 69.8% higher than the US\$ 7,460 million in the first quarter of 2007. This growth was driven by costs in 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 20.8% in the first quarter of 2008 as compared to the first quarter of 2007. Costs and expenses accounted for 77.4% and 90.8% of Rosneft's total revenues in the first quarters of 2008 and 2007, respectively. Costs and expenses excluding export customs duties and taxes other than income tax accounted for 28.1% and 34.9% of Rosneft's total revenues in the first quarters of 2008 and 2007, respectively.

Production and Operating Expenses

In the first quarter of 2008, production and operating expenses were US\$ 1,020 million compared to US\$ 542 million in the first quarter of 2007, a US\$ 478 million, or 88.2%, increase. The main contributors, excluding the real appreciation of the rouble against the US dollar of 20.8%, were US\$ 456 million of operating expenses attributable to recently acquired subsidiaries, 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.

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\$ 563 million and US\$ 302 million, respectively, in the first quarter of 2008 and US\$ 478 million and

US\$ 45 million, respectively, in the first quarter of 2007. Other activities' operating expenses accounted for US\$ 155 million in the first quarter of 2008 and US\$ 19 million in the first quarter of 2007.

Upstream production and operating expenses increased by US\$ 85 million in the first quarter of 2008 compared to the first quarter of 2007 due to the addition of operating expenses of Samaraneftgaz in the amount of US\$ 83 million, 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 rouble appreciation of 20.8%.

Upstream production and operating expenses in the first quarter of 2008 were US\$ 3.19 per barrel of crude oil produced and US\$ 2.89 per boe produced. Upstream production and operating expenses in the first quarter of 2007 were US\$ 3.23 per barrel of crude oil produced and US\$ 2.79 per boe produced. These measures are defined below under — “Key Financial Ratios”.

Upstream production and operating expenses in the first quarter of 2008, excluding Sakhalin-1 costs and costs of Samaraneftgaz, were US\$ 2.79 per barrel of crude oil produced and US\$ 2.50 per barrel of oil equivalent produced. These expenses were US\$ 3.00 per barrel of crude oil produced and US\$ 2.59 per boe produced in the first quarter of 2007.

Downstream and other operating expenses increased by US\$ 394 million in the first quarter of 2008 compared to the first quarter of 2007 due to the additional operating expenses of recently acquired assets in the amount of US\$ 373 million, and higher procurement prices for liquid fuel for transport and energy supplies, as well as real rouble appreciation of 20.8%.

The decrease in lifting costs in the first quarter of 2008 by 1.2% (to US\$ 3.19 per barrel of crude oil produced) compared to the first quarter of 2007 (US\$ 3.23 per barrel of crude oil produced) was caused by a number of factors. First, the effect of including acquired service entities into the consolidated income statement from their dates of acquisition in the second and third quarters of 2007 and subsequent cost reductions at these entities resulted in a decrease in upstream operating expenses per barrel of US\$ 0.63. Following the acquisition of these entities by Rosneft, upon consolidation in Rosneft's financial statements their costs were allocated to the relevant lines of the profit and loss statement (including their operating expenses being allocated to Rosneft's upstream operating expenses) and they no longer generated a margin as a third party supplier. Previously (before the acquisition of the entities by Rosneft and subsequent consolidation) their revenues paid by Rosneft, which covered all of their costs and an appropriate margin, were included as an expense in Rosneft's upstream operating expenses. Second, the consolidation of Yukos-Mamontovo, which was consolidated in the second quarter of 2007 for the first time and which leases assets to Yuganskneftgaz, led to a decrease in lifting costs of US\$ 0.12 per barrel of crude oil produced by Rosneft. These reductions were partly offset by the consolidation of Samaraneftgaz, which contributed an additional US\$ 0.18 per barrel of crude oil to Rosneft's lifting costs, by the nominal appreciation of the Russian rouble versus the US Dollar by 8.4% in the first quarter compared to the first quarter of 2007, which contributed an additional US\$ 0.27 per barrel of crude oil to Rosneft's lifting costs and by other factors (including rouble inflation of 13.3% and increases in prices for fuel and lubricants contributing together an additional US\$ 0.26 per barrel of crude oil to Rosneft's lifting costs).

The table below sets forth Rosneft's volumes and operating expenses and general and administrative expenses at the Komsomolsk and Tuapse refineries and at mini-refineries during the first quarters of 2008 and 2007:

	For the three months ended 31 March		% change between the three months ended 31 March 2008 and 2007
	2008	2007	
Petroleum products output	(millions of tonnes)		
High octane gasoline	0.13	0.10	30.0%
Low octane gasoline	0.07	0.10	(30.0)%
Naphtha	0.40	0.36	11.1%
Diesel fuel	1.07	1.01	5.9%

	For the three months ended 31 March		% change between the three months ended 31 March 2008 and 2007
	2008	2007	
Petroleum products output	(millions of tonnes)		
Fuel oil	1.30	1.24	4.8%
Jet fuel (kerosene)	0.09	0.08	12.5%
Other	0.09	0.11	(18.2)%
Total	3.15	3.00	5.0%
Operating expenses and general and administrative expenses (US\$ millions)	36	26	38.5%
Operating expenses and general and administrative expenses per tonne of output (US\$/tonne)	11.43	8.67	31.8%
Operating expenses and general and administrative expenses per tonne of throughput (US\$/tonne)	10.84	8.58	26.3%

The main contributors to the growth of operating expenses and general and administrative expenses per tonne in the first quarter of 2008 compared to the first quarter of 2007 at the Komsomolsk and Tuapse refineries and mini-refineries were rent fees, wages and salaries, insurance expenses and the real rouble appreciation of 20.8%.

The table below sets forth Rosneft's volumes and operating expenses and general and administrative expenses at the Angarsk, Achinsk, Kuibyshev, Novokuibyshevsk and Syzran refineries during the first quarters of 2008 and 2007:

	For the three months ended 31 March	
	2008	2007
Petroleum products output	(millions of tonnes)	
High octane gasoline	1.05	-
Low octane gasoline	0.46	-
Naphtha	0.25	-
Diesel fuel	3.14	-
Fuel oil	2.81	-
Jet fuel (kerosene)	0.26	-
Petrochemicals	0.21	-
Other	0.63	-
Total	8.81	-
Operating expenses and general and administrative expenses (US\$ millions)	269	-
Operating expenses and general and administrative expenses per tonne of output¹ (US\$/tonne)	30.53	-
Operating expenses and general and administrative expenses per tonne of throughput² (US\$/tonne)	28.38	-

¹ Output is the volume of petroleum products produced.

² Throughput is the volume of crude oil refined.

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

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

The following table shows Rosneft's third-party refining costs and crude oil, gas and petroleum product procurement costs in the first quarters of 2008 and 2007:

	For the three months ended 31 March		% change between the three months ended 31 March 2008 and 2007
	2008	2007	
Cost of procurement of crude oil from third parties by the downstream segment (US\$ millions) ⁽¹⁾	610	258	136.4%
Procurement of crude oil from third parties by the downstream segment (millions of barrels) ⁽¹⁾	15.43	11.00	40.3%
Cost of procurement of gas (US\$ millions)	11	10	10.0%
Procurement of gas (bcm)	0.27	0.30	(10.0)%
Cost of procurement of petroleum products from third parties by the upstream and downstream segments ⁽²⁾⁽³⁾ (US\$ millions)	138	58	137.9%
Procurement of petroleum products from third parties by the upstream and downstream segments ⁽²⁾⁽⁴⁾ (millions of tonnes)	0.20	0.15	33.3%
Cost of procurement of petrochemicals from third parties by the downstream segment (US\$ millions)	8	-	-
Procurement of petrochemicals from third parties by the downstream segment (millions of tonnes)	0.36	-	-
Cost of refining of crude oil under processing agreements (US\$ millions)	2 ⁽⁵⁾	154 ⁽⁶⁾	(98.8)%
Volumes of crude oil refined under processing agreements (millions of tonnes)	0.03	3.87	(99.2)%
Refining fees per tonne (US\$)	63.17	39.79	58.7%
Total cost of purchased oil, gas, petroleum products and refining costs (US\$ millions)	769	480	60.2%

(1) The Company purchased crude oil from Udmurtneft of 0.19 million tonnes, Nafta Sib & Co of 0.10 million tonnes, Tomskneft of 1.76 million tonnes, Tomsk-Petroleum-und-Gaz of 0.05 million tonnes and Samarainvestneft of 0.01 million tonnes in the first quarter of 2008.

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

(3) Including cost of procurement of petroleum products from third parties by recently acquired downstream subsidiaries, amounting to US\$ 64 million in the first quarter of 2008.

(4) Including cost of procurement of petroleum products from third parties by recently acquired downstream subsidiaries, amounting to 0.09 million tonnes in the first quarter of 2008.

(5) Cost of processing at Strezhevoy mini-refinery after selling Tomskneft on 27 December, 2007.

(6) From the date of purchase of these refineries by Rosneft in May 2007, the refinery costs are reflected in operating expenses, taxes, depreciation and amortisation, and general and administrative costs. For the three months ended 31 March 2008, refinery costs included in operating expenses were US\$ 240 million, refinery costs included in taxes were US\$ 29 million, refinery costs included in depreciation, depletion and amortisation were US\$ 106 million and refinery costs included in general and administrative costs were US\$ 29 million. 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.

In the first quarter of 2007, the refinery fees paid to the Angarsk, Achinsk, Kuibyshev, Novokuibyshevsk, Strezhevoy and Syzran refineries, which at that time were third-party 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 and taxes other than income tax.

In the first quarter of 2008, the cost of purchased crude oil, gas, petroleum products and refining costs was US\$ 769 million, a 60.2% increase from US\$ 480 million in the first quarter of 2007. The overall increase was due, in significant part, to an increase in the cost of procuring crude oil. 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, the sale of Tomskneft on 27 December 2007 and Rosneft's subsequent purchase of crude oil from Tomskneft 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 first quarter of 2008, processing fees were substantially eliminated, while they amounted to US\$ 5.3 per barrel of crude oil refined in the first quarter of 2007.

In the first quarter of 2008, the volume of purchased crude oil was 15.43 million barrels (at a cost of US\$ 610 million). In the first quarter of 2007, the volume of purchased crude oil was 11.00 million barrels (at a cost of US\$ 258 million).

After the acquisition of refining assets from Yukos in May 2007, the Company has purchased additional volumes of crude oil in order to utilise its expanded refining capacity. In the first quarter of 2008, the Company purchased crude oil from Udmurtneft, NAFTA-Sib & Co and Samarainvestneft for US\$ 99 million (2.19 million barrels). 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 quarter of 2008 by the 68.6% compared to the first quarter 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 first quarter of 2008, Rosneft purchased its share of crude oil (1.76 mln. tonnes) and a portion of Gazprom Neft's crude oil share (0.58 mln. tonnes). These volumes were directed to the Achinsk refinery and to ANHK. Rosneft's purchases from Gazprom Neft were matched by the sale of the same volume of crude oil produced by Yuganskneftegaz to Gazprom Neft at the same price adjusted for a transportation cost differential. These transactions were entered into in order to maximise netbacks from refining of Tomskneft crude oil, since the Achinsk refinery and ANHK are located closer to Tomskneft's oilfields than to the Yuganskneftegaz fields. Revenues and costs of purchases for these transactions are shown on a net basis and only the margin is recognised 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 0.20 million tonnes in the first quarter of 2008 and 0.15 million tonnes in the first quarter of 2007.

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

For the three months ended 31 March

%
change between
the three months ended
31 March 2008 and 2007

	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	35	0.05	765.42	6	0.01	528.06	483.3%	400.0%	44.9%
Low octane gasoline	9	0.01	697.20	3	0.01	497.24	200.0%	0.0%	40.2%
Diesel fuel	58	0.08	725.00	25	0.05	455.40	132.0%	60.0%	60.2%
Fuel oil	29	0.05	587.53	14	0.06	212.62	107.1%	(16.7)%	176.3%
Jet fuel (kerosene)	2	0.00	705.32	0	0.00	448.16	-	-	57.4%
Other	5	0.01	415.94	11	0.02	560.97	(54.5)%	(50.0)%	(25.9)%
Total	138	0.20	690.00	58	0.15	386.67	137.9%	33.3%	78.4%

Rosneft's average price per tonne of petroleum products procured from third parties increased in the first quarter of 2008, by 78.1% compared to the first quarter of 2007. The increase was due to the purchase of petroleum products from third parties by recently acquired downstream subsidiaries, which amounted to US\$ 64 million, or 0.09 million tonnes of petroleum products, a change in the mix of procured petroleum products and real rouble appreciation of 20.8%. Excluding the cost of purchases from third parties of petroleum products by recently acquired downstream subsidiaries, Rosneft's cost of procurement of petroleum products from third parties increased by 67.8% in the first quarter 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 differs from the price in the Southern Russia market by almost two times). The variation in price between different domestic markets, where the actual procurement is made, explains why the price the Company pays for fuel oil can be higher than the price at which the Company sells fuel oil, even if its sales at such lower prices lead to positive margins in the regions of sale.

The significant increase in the price of fuel oil in the first quarter of 2008 was due to a Government contract for shipment of 50 thousand tonnes of high-quality fuel oil (that also contains diesel fuel) to Asia. Because the Company does not produce fuel oil of sufficient quality and composition, it was obliged to purchase it abroad, which led to the higher purchase price. Excluding this factor, the average purchase price of fuel oil amounted for US\$ 182.95 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 first quarter of 2008 were US\$ 358 million, 92.5% higher than the US\$ 186 million in the first quarter of 2007. This increase was mainly due to the general and administrative expenses of recently acquired subsidiaries, which totalled US\$ 101 million in the first quarter of 2008, and to the 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 final customers, and to deliver petroleum products from refineries to end customers. Transportation costs include the cost of pipeline transportation, sea freight, railway and river tariffs, handling, port fees, customs costs, demurrage and other costs.

Pipeline tariffs paid by Rosneft and transportation costs increased to US\$ 1,381 million in the first quarter of 2008 from US\$ 939 million in the first quarter of 2007. This 47.1% increase was mainly due to an increase in the volume of transported oil and petroleum products and an increase in the pipeline and railway tariffs of natural monopolies.

Cost per tonne transported by pipeline, railroad and mixed transport is presented in the table below.

	For the three months ended 31 March								% change between the three months ended 31 March 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	956	73.6%	302	31.59	1020	69.4%	243	23.85	(6.3)%	24.1%	32.4%
Railroad and mixed	3.43	26.4%	274	79.88	4.38	30.6%	296	67.58	(21.7)%	(7.4)%	18.2%
Transportation to refineries and domestic sales											
Pipeline	12.27	-	223	18.17	6.42	-	131	20.40	91.1%	70.2%	(10.9)%
Railroad and mixed	1.48	-	159	107.36	1.31	-	114	86.42	12.8%	40.1%	24.2%
PETROLEUM PRODUCTS											
Export sales											
Pipeline	0.42 ⁽¹⁾	6.6%	20	47.62	0.25	7.1%	10	40.97	66.7%	93.7%	16.2%
Railroad and mixed	4.80	75.6%	336	70.00 ⁽²⁾	2.14	62.2%	92	42.97 ⁽²⁾	124.7%	266.1%	62.9%
Other transportation expenses ⁽³⁾											
	-	-	67	-	-	-	53	-	-	-	-
Total transportation expenses	33.09	-	1,381	41.73	25.82	-	939	36.37	28.2%	47.1%	14.8%

- (1) Part of petroleum products of 1.13 mln. tonnes (17.8% share of export volumes) were exported in the first quarter of 2008 through the Company's own pipeline in the town of Tuapse. Operating expenses for this pipeline are included in financial statement as operating expenses.
- (2) Including transshipment, freight charges, dispatching services etc.
- (3) 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 32.4% in the first quarter of 2008 compared to the first 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 10.9% in the first quarter of 2008 compared to the first quarter of 2007 due to a change in the logistics of 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 16.2% in the first quarter of 2008 compared to the first quarter of 2007, due to the use of new logistical schemes and transportation routes ("Ventspils" and "Bryansk-Ventspils"), the increase of Transnefteprodukt's tariffs (see section "—Changes in Transport Tariffs") and real rouble appreciation.

Rosneft's crude oil export railroad and mixed transport cost per tonne increased by 18.2% in the first quarter of 2008 compared to the first quarter of 2007 primarily due to an increase in the transportation tariffs charged by RZD. Rosneft's crude oil domestic railroad and mixed cost per tonne for transportation to refineries increased by 24.2% in the first quarter of 2008 compared to the first quarter of 2007 due to an increase in railroad tariffs of natural monopolies (see section "—Changes in Transport Tariffs"), partially offset by the usage of alternative routes of transportation in Samara region due to acquisition of new assets there. Rosneft's petroleum products export railroad and mixed transport cost per tonne increased by 62.9% in the first quarter of 2008 compared to the first quarter of 2007, due to the usage of new logistical schemes after the acquisition of new assets and to increased railroad tariffs of natural monopolies (see section "—Changes in Transport Tariffs").

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 oil and gas are discovered, or expensed in the current period in the event of unsuccessful exploration results.

In the first quarter of 2008, exploration expenses increased to US\$ 74 million from US\$ 35 million in the first quarter of 2007 or by 111.4%. The increase was due to unsuccessful exploration results of the Kurmangazy project and to the acquisition of new assets, for which exploration expenses amounted to US\$ 13 million. The increase in exploration expenses in the first quarter of 2008 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.

Depreciation, Depletion and Amortisation

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

Depreciation, depletion and amortisation were US\$ 954 million in the first quarter of 2008 compared to US\$ 673 million in the first quarter of 2007. The 41.8% increase was mainly due to the depreciation, depletion and amortisation in the first quarter of 2008 of recently acquired assets (US\$ 230 million) and to the acquisition and construction of oil and gas producing wells and other assets during 2007. The carrying value of the assets acquired from Yukos was revalued upward as a result of the fair value allocation of the purchase price following the acquisition.

Taxes Other than Income Tax

Taxes other than income tax include mineral extraction tax, excise tax (mainly with respect to petroleum products), unified social tax, property tax and other taxes. 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 first quarter of 2008 compared to the first quarter of 2007 mainly due to the impact of the mineral extraction tax.

The following table sets forth Rosneft’s taxes other than income tax during the first quarters of 2008 and 2007.

	For the three months ended 31 March		% change between the three months ended 31 March 2008 and 2007
	2008	2007	
	(million US\$)		
Mineral extraction tax	3,076	1,654	86.0%
Excise tax	313	142	120.4%
Social security	115	12	858.3%
Property tax	64	38	68.4%
Land tax	7	1	600.0%
Transportation tax	1	1	0.0%
Other taxes and payments	14	68	(79.4)%
Total taxes other than income tax	3,590	1,916	87.4%

Taxes other than income tax increased by 87.4% to US\$ 3,590 million in the first quarter of 2008, compared to US\$ 1,916 million in the first quarter of 2007. The growth in taxes resulted mainly from an increase in mineral extraction tax per tonne due to higher prices for crude oil, and also, in part, from taxes other than income tax of US\$ 517 million of the recently acquired subsidiaries, especially of assets acquired from Yukos. Following these acquisitions and as a result of the accompanying increase in the production of petroleum products, such as high octane gasoline and diesel fuel, excise taxes increased significantly.

In December 2007, by an Order of the Government of the Russian Federation, 42.3 billion roubles of the Company’s Federal tax debt was restructured for a period of five years (through 2012 inclusively). In the consolidated financial statements as of and for the three months ended 31 March 2008, this debt has been reclassified as long-term obligations. This order also allowed the Company to restructure RUB 15.0 billion of its regional and local tax liabilities in the first quarter of 2008 under the same conditions. As of 31 March 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 the first quarter of 2008, the Company paid 1,162 million roubles (US\$ 49 million at the CBR official exchange rate as of the dates of payments), which was the amount required to be paid pursuant to the restructuring plan.

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—Changes in Mineral Extraction Tax and Export Customs Duty.”

The following table sets forth Rosneft's export customs duties during the first quarters of 2008 and 2007.

	For the three months ended 31 March		% change between the three months ended 31 March 2008 and 2007
	2008	2007	
	(US\$ millions)		
Export customs duty for crude oil	3,450	2,312	49.2%
Export customs duty for petroleum products	1,028	366	180.9%
Total export customs duties	4,478	2,678	67.2%

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

	For the three months ended 31 March	
	2008	2007
	(US\$ per barrel, except%)	
Average Urals price	93.33	54.30
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)	48.42	23.07
Average price of crude oil sold by Rosneft to non-CIS Countries	92.87	53.43
Hypothetical export customs duty as a percentage of average Urals prices as calculated	51.9%	42.5%
Actual customs duty paid by Rosneft during the period	38.49	22.88
Actual customs duty paid by Rosneft during the period as a percentage of average Urals prices	41.2%	42.1%
	(US\$ million, except%)	
Crude oil export customs duties ⁽¹⁾	3,450	2,312
Crude oil export sales ⁽²⁾	8,064	5,159
Export customs duty as a percentage of crude oil export sales ⁽²⁾	42.8%	44.8%

(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 du

(3) ties are not payable on exports.

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

In the first quarter of 2008 compared to the first quarter of 2007, hypothetical export customs duties increased as a percentage of average Urals prices as calculated, but actual customs duty decreased as a percentage of the average Urals price. Export customs duties were US\$ 4,478 million in the first quarter of 2008 compared to US\$ 2,678 million in the first quarter of 2007. This increase is explained by a 75.8% growth in export volumes of petroleum products and a 12.3% growth in export volumes of crude oil to Europe, accompanied by an increase in the rate of the export customs duty from 67.7% to 74.6% depending on the type of hydrocarbons, after taking into account the lag in the calculation of the rate. The increase also resulted from the introduction of export duties on crude oil exported from the Russian Federation to Belarus.

Operating Income

As a result of the factors discussed above, operating income increased by 387.4% in the first quarter of 2008 compared to the first quarter of 2007. As a percentage of total revenues, operating income was 22.6% and 9.2% in the first quarters of 2008 and 2007, respectively. As a percentage of revenues, operating income before taxes other than income tax and export customs duty was 71.9% and 65.1% in the first quarters of 2008 and 2007, respectively.

Other Income/(Expenses)

Interest Income

Interest income increased by 100.0% to US\$ 74 million in the first quarter of 2008 from US\$ 37 million in the first quarter of 2007, which was mainly due to the growth in the Company's banking activities.

Interest Expense

Interest expense increased by 68.7% to US\$ 339 million in the first quarter of 2008 from US\$ 201 million in the first quarter of 2007. In the period from March to May 2007, Rosneft entered into loan agreements with a consortium of international banks for the total amount of US\$ 22.0 billion. These loans were drawn to finance the acquisition of assets from Yukos in the course of the auctions. In February 2008, the Company refinanced US\$ 2.97 billion of these loans by entering into a five-year syndicated credit facility at LIBOR plus 0.95% per annum, which led to an increase in interest expense in the first quarter of 2008 as compared to the first quarter of 2007. As of 31 March 2008, the short-term balance of debt related to bridge-loans was US\$ 6.5 billion, bearing interest at a rate of LIBOR plus 0.5% per annum, which also led to an increase in interest expense in the first quarter of 2008 as compared to the first quarter of 2007.

Gain/Loss on Disposal of Property, Plant and Equipment

Rosneft disposes of property, plant and equipment, and writes off fixed assets related to the social sphere, from time to time. In the first quarter of 2008, Rosneft reported an overall gain of US\$ 4 million on the disposal of property, plant and equipment, net of a US\$ 2 million loss on the disposal of property, plant and equipment in recently acquired subsidiaries. In the first quarter of 2007, the Company reported a loss of US\$ 12 million on the disposal of property, plant and equipment.

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 first quarter of 2008, other expenses, net, amounted to US\$ 2 million, compared to US\$ 51 million of other expenses, net, in the first quarter of 2007. The change was due mainly 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 losses were US\$ 152 million in the first quarter of 2008 compared to losses of US\$ 47 million in the first quarter of 2007. This increase in losses resulted from the impact of a further appreciation of the rouble against the US dollar on the Company's rouble-denominated net monetary liability position, which mostly relates to income and other tax liabilities and deferred tax liabilities as at 31 March 2008.

Income Tax Expense

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

	For the three months ended 31 March	
	2008	2007
Effective income tax rate under US GAAP	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 first quarter of 2008 and 2007 (higher than the maximum rate of 24% established by the Russian tax legislation for the periods analysed).

The most significant factors affecting the effective income tax rate in the first 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\$ 836 million in the first quarter of 2008 compared to US\$ 121 million in the first quarter of 2007. Current income tax expense increased to US\$ 1,103 million in the first quarter of 2008 from US\$ 236 million in the first quarter of 2007, while deferred income tax benefits increased to US\$ 267 million from US\$ 115 million. In the first quarter of 2008, income tax, current income tax expense and deferred income tax benefits for recently acquired subsidiaries were US\$ 81 million, US\$ 94 million and US\$ 13 million, respectively.

Minority Interest in Subsidiaries' Earnings, Net of Tax

Minority interest in subsidiaries' earnings, net of tax, was US\$ 6 million in the first quarter of 2008 compared to US\$ 1 million in the first quarter of 2007. The change was due to the acquisition of entities with the share of ownership less than 100%.

Net Income

As a result of the factors discussed above, net income increased by 616.2% to US\$ 2,564 million in the first quarter of 2008 from US\$ 358 million in the first quarter of 2007. As a percentage of revenues, net income was 15.7% and 4.4% in the first quarters of 2008 and 2007, respectively.

Liquidity and Capital Resources

Cash Flows

The principal items of the statement of cash flows for the first quarters of 2008 and 2007 are as follows:

	For the three months ended 31 March		% change between the three months ended 31 March 2008 and 2007
	2008	2007	
	(US\$ millions)		
Net cash provided by operating activities	4,505	894	403.9%
Net cash used in investing activities	(1,773)	(1,046)	(69.5)%
Net cash (used in)/provided by financing activities	(2,578)	1,271	(302.8)%

Net Cash Provided by Operating Activities

Net cash provided by operating activities amounted to US\$ 4,505 million in the first quarter of 2008 as compared to US\$ 894 million in the first quarter of 2007. The increase in net cash from operating activities resulted mainly from an increase in net income (US\$ 2,564 million in the first quarter of 2008 compared to US\$358 million in the first quarter of 2007) and a decrease in working capital.

The decrease in working capital in the first quarter of 2008 is primary attributable to:

- A significant decrease in accounts receivable of US\$ 1,547 million due to
 - a US\$ 1,334 million decrease in export VAT as of 31 March 2008 compared to the amount of export VAT as of 31 December 2007, as a result of offsetting of export VAT in the amount of US\$ 1,629 million during the first quarter of 2008,
 - a US\$ 545 million decrease in trade receivables which mainly resulted from settlements by letters of credit reducing the period of collection.
 - a US\$ 22 million decrease in other recoverable taxes receivable, which was offset by the increase in banking loans to customers of US\$ 162 million and increase in other accounts receivable of US\$ 222 million.

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

- a US\$ 190 million increase in inventory due to an increase in balances of crude oil and petroleum products in the new assets, acquired during the Yukos bankruptcy proceedings.
- a US\$ 270 million increase in prepayments and other non-current assets primarily due to growth in long-term VAT receivables and a US\$ 180 million increase in other current assets, primarily due to growth in customs duty prepayments.

Net Cash Used in Investing Activities

Net cash used in investing activities was US\$ 1,773 million in the first quarter of 2008 compared to US\$ 1,046 million in the first quarter of 2007. The increase in net cash used in investing activities reflected principally an increase in capital expenditures in the first quarter of 2008.

The increase in capital expenditures, in turn, resulted from: an increase in investments in upstream subsidiaries mainly Vankorneft and Samaraneftegaz (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 used in financing activities was US\$ 2,578 million in the first quarter of 2008, and the net cash provided by financing activity was US\$ 1,271 million in the first quarter of 2007. The decrease in cash provided by financing activities in 2008 compared to 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 quarter of 2007 and in May 2007, Rosneft drew significant amount of loans to participate in auctions for the sales of Yukos assets and general corporate purposes that resulted in the increase in cash inflow in comparison with the first quarter of 2008.

In February 2008, the Company raised a syndicated loan in the amount of US\$ 3 billion that was provided by a group of international banks at LIBOR plus 0.95%. The loan matures in 5 years and is secured by oil export contracts. The funds are to be used for refinancing short-term loans.

In March 2008, the Company repaid US\$ 5.2 billion of its outstanding bridge financing, US\$ 2.97 billion of which was paid with long-term funds received for refinancing purposes. In the first quarter of 2008, the Company also made scheduled repayments of bank facilities of US\$ 0.57 billion.

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 first quarters of 2008 and 2007:

	For the three months ended 31 March		% change between the three months ended 31 March 2008 and 2007
	2008	2007	
	(US\$ millions)		
Yuganskneftegaz	567	439	29.2%
Vankor field	514	139	269.8%
Purneftegaz	79	51	54.9%
Severnaya Neft	31	39	(20.5)%
Samaraneftegaz	24	-	100.0%
Other ¹	79	93	(15.1)%
Total upstream segment	1,294	761	70.0%
The Company	17	47	(63.8)%
Tuapse refinery	29	14	107.1%
Komsomolsk refinery	8	7	14.3%
Angarsk refinery	9	-	100.0%
Achinsk refinery	4	-	100.0%
Syzran refinery	7	-	100.0%
Novokuibyshevsk refinery	8	-	100.0%
Kuibyshev refinery	6	-	100.0%
Marketing Business Units and others ²	71	37	91.9%
Total downstream segment	159	105	51.4%
Other activities³	54	9	500.0%
Subtotal capital expenditures	1,507	875	72.2%
Net increase in construction materials	241	158	52.5%
Total capital expenditures and capex acquisition	1,748	1,033	69.2%
Licence acquisition costs	9	-	-
Total capital expenditures and acquisition of licences	1,757	1,033	70.1%

¹ Including: Krasnodarneftegaz, Stavropolneftegaz, Sakhalin 1, Groznetgaz, 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 70.1% or by US\$ 724 million to US\$ 1,757 million in the first quarter of 2008 compared to US\$ 1,033 million in the first quarter of 2007. This increase was primarily driven by the upstream segment, where capital expenditures increased by 70.0%, or by US\$ 533 million, accompanied by a US\$ 54 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 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 new refineries that Rosneft acquired in May 2007, namely, the Achinsk, Angarsk, Syzran, Kuibyshev and Novokuibyshevsk refineries, to new marketing business units acquired by Rosneft in 2007, as well as to modernisation launched at the Tuapse refinery.

Capital expenditures for other activities increased by 500.0%, or by US\$ 45 million, in the first quarter of 2008, compared to US\$ 9 million in the first quarter of 2007. The increase for other activities primarily, resulted from growth in the service companies, such as RN-Burenie 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\$ 241 million and US\$ 158 million in the first quarters of 2008 and 2007, respectively, is included in capital expenditures as investing activity cash outflow.

The licence acquisition costs in the first quarter of 2008 were attributable to the acquisition of a licence for exploration and production in Umotkinskiy Block.

In the first quarter of 2008, the total amount of capital investments related to the assets acquired from Yukos was US\$ 84 million, including US\$ 24 million in the upstream segment, US\$ 58 million in the downstream segment and US\$ 2 million in the other segment.

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. As of 31 March 2008, the amount outstanding under these short-term bridge financing facilities which was not refinanced was US\$ 6.5 billion bearing an interest of LIBOR plus 0.5% per annum and is included in the Bank loans – foreign currencies denominated.

Rosneft's total loans and borrowings decreased to US\$ 24,765 million as of 31 March 2008 from US\$ 27,273 million as of 31 December 2007.

As of 31 March 2008, the bank loans raised to finance the acquisition of Yuganskneftegaz 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 31 March 2008 and 31 December 2007, 50.6% and 37.1%, respectively, of Rosneft's borrowings were secured by crude oil export contracts (excluding export to the CIS). As of 31 March 2008 and 31 December 2007, pledged oil exports constituted 48.9% and 31.7%, respectively, of the total crude oil export sales for the period in question.

Rosneft's short-term borrowings (including the current portion of long-term debt) decreased to US\$ 13,797 million as of 31 March 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\$ 1,580 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 5.60% - 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 of 8.5% per annum.

As of 31 March 2008, the Company's long-term and short-term debt assumed through the direct acquisition of new assets amounted to US\$ 1,887 million. Assumed debt includes promissory notes (nominal value and accrued interest) in the amount of US\$ 1,706 million, of which US\$ 1,084 million were long-term promissory notes and US\$ 622 million were short-term promissory notes. Short-term promissory notes included approximately US\$ 944 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 11 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.

These conditions also apply to certain new borrowings obtained in 2007 and the first quarter of 2008. As of 31 March 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 Samaraneftgaz 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 31 March 2008:

	<u>(US\$ millions)</u>
Before 31 December 2008	2,374
2009	5,024
2010	3,654
2011	1,790
2012	1,229
2013 and after	176
Total long-term debt	<u>14,247</u>

In April 2008, due to the successful syndication of the long-term loan received in February 2008, the Company attracted an additional US\$ 425 million. Taking into consideration these additional proceeds received under syndication, the total amount available under this loan facility increased to US\$ 3.43 billion.

In June 2008 the Company made scheduled repayment of short-term loan in the amount of US\$ 250 mln from own funds to OJSC Bank VTB.

Key Financial Ratios

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

	For the three months ended 31 March	
	2008	2007
EBITDA margin	28.7%	21.6%
Adjusted net income margin	15.7%	8.4%
Net debt to capital employed ratio	0.43	0.40
Net debt to adjusted EBITDA ratio, annualised	1.25	2.11
Current ratio	0.68	0.86
	(US \$)	
EBITDA/bbl	26.64	12.01
EBITDA/boe	24.10	10.37
Upstream capital expenditure/bbl	7.34	5.14
Upstream capital expenditure/boe	6.64	4.44
Upstream operating expenses/bbl	3.19	3.23
Upstream operating expenses/boe	2.89	2.79
Adjusted free cash flow /bbl	15.58	(0.94)
Adjusted free cash flow /boe	14.10	(0.81)

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 31 March	
	2008	2007
Upstream capital expenditures ⁽¹⁾ (US\$ millions)	1,294	761
Upstream operating expenses (US\$ millions)	563	478
Barrels of crude oil produced (millions)	176.34	147.92
Barrels of oil equivalent produced (millions)	194.93	171.34

(1) Excluding licence acquisition costs.

Calculation of Adjusted Free Cash Flow

	For the three months ended 31 March	
	2008	2007
	(US\$ millions)	
Net cash provided by operating activities	4,505	894
Capital expenditures ⁽¹⁾	(1,748)	(1,033)
Free cash flow	2,757	(139)
License acquisition costs	(9)	-
Adjusted free cash flow	2,748	(139)

(1) Excluding licence acquisition costs.

*Calculation of EBITDA Margin**

	For the three months ended 31 March	
	2008	2007
	(US\$ millions, except%)	
Income before minority interest	2,570	359
Income tax expense	836	121
Total other (income)/expenses	298	280
Operating income	3,704	760
Interest accrued in relation to Yuganskneftegaz tax liabilities for 1999-2004	-	332
Accretion expense	40	11
Depreciation, depletion and amortisation	954	673
EBITDA	4,698	1,776
Total revenues	16,368	8,220
EBITDA margin	28.7%	21.6%

*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 31 March	
	2008	2007
	(US\$ millions, except%)	
Net income	2,564	358
Interest accrued in relation to Yuganskneftegaz tax liabilities for 1999-2004	-	332
Adjusted net income	2,564	690
Total revenues	16,368	8,220
Adjusted net income margin	15.7%	8.4%

Current ratio

	For the three months ended 31 March	
	2008	2007
	(US\$ millions, except ratio)	
Current assets	13,974	11,056
Current liabilities	20,569	12,894
Current ratio	0.68	0.86