

Management's Discussion and Analysis of Financial Condition and Results of Operations for the Six Months Ended June 30, 2006 and 2005

This report reviews the financial and operating performance of OJSC Rosneft for the six months ended June 30, 2006 and 2005 and should be used together with the interim consolidated financial statements of OJSC Rosneft and notes thereto for the periods then ended.

Such terms as "Rosneft", "Company", and "we" in its different forms in this report mean OJSC Rosneft and its consolidated subsidiaries and affiliated companies. This report contains forward-looking statements. Such words as "expect", "consider", "assume", "estimate", "intend", "plan" and the like point to such forward-looking statements. These forward-looking statements reflect the currently available forecasts and views of the Company's management concerning the future results; however, they cannot guarantee the achievement of the said results in the future.

All amounts in US dollars are given in millions, unless otherwise indicated. Figures are rounded; however percent changes are calculated on the basis of actual indicators.

Rosneft's actual results may differ materially from those discussed in such forward-looking statements as a result of various factors.

Overview

Rosneft is a vertically integrated oil and gas company with upstream and downstream operations located principally in Russia. Rosneft is one of the world's largest publicly traded oil companies in terms of proved crude oil reserves and among the top ten in terms of crude oil production. According to DeGolyer&MacNaughton (D&M), Rosneft's independent reservoir engineers, as of 31 December 2005, Rosneft had proved reserves of 18.94 billion boe, including proved crude oil reserves of approximately 14.88 billion barrels (2.05 billion tonnes) and proved gas reserves of approximately 690.52 bcm. Also according to D&M, as of 31 December 2005, Rosneft had proved and probable crude oil reserves of approximately 23.18 billion barrels (3.19 billion tonnes) and proved and probable gas reserves of approximately 1,134.86 bcm. Rosneft's reserves are located in Western Siberia, Timano-Pechora, the Russian Far East, Southern Russia and Eastern Siberia. Rosneft also has significant prospective crude oil resources in Western Siberia, the Russian Far East, which includes Sakhalin Island and the Kamchatka Peninsula, Southern Russia and Eastern Siberia.

In the first half of 2006, Rosneft, via a group of its consolidated subsidiaries, produced 38.111 million tones of crude oil (1,528.63 thousand barrels of crude oil per day), an increase of 2.88 million tones, or 8%, above the first half of 2005 (35.227 million tones). Rosneft sells approximately 70% of this crude oil to customers outside Russia, which includes both sales to CIS countries and exports to international markets other than the CIS. Most of the remainder is refined at Rosneft's two main refineries and at third party refineries in Russia and then sold in the form of petroleum products in international and domestic markets. Rosneft has an integrated production, transportation, refining and marketing strategy and seeks to maximize netbacks by optimizing its product mix and available transport routes.

Rosneft's total revenues increased from USD 9,864 million in the first half of 2005 to USD 16,356 million in the first half of 2006 and from USD 5,501 million in the second quarter of 2005 to USD 8,840 million in the second quarter of 2006. Similarly, adjusted net income (excluding effect of income from divestment of CJSC Sevmorneftegas and minority interest) increased from USD 1,710 million in the first half of 2005 to USD 1,953 million in the first half of 2006 and from USD 978 million in the second quarter of 2005 to USD 1,108 million in the second quarter of 2006.

Rosneft's total revenues and net income have grown organically and by way of acquisition. The most significant recent acquisition was the December 2004 acquisition of Baikalfinansgroup, which had won an auction for the sale of 76.79% of the shares (100% of the common shares) of Yuganskneftegaz, the second largest oil production enterprise in Russia. As of 31 December 2005, Yuganskneftegaz accounted for approximately 73.4% of Rosneft's proved crude oil reserves. It accounted for approximately 69.0% of Rosneft's crude oil production in the first half of 2006 and 2005. The acquisition of Yuganskneftegaz contributed significantly to the increases in Rosneft's total revenues and net income starting from 2005. The increases in Rosneft's total revenues and net income in other periods were due mainly to organic growth.

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 disclose geographic segments separately. The Company also carries out projects abroad, including projects in Kazakhstan, Turkmenistan and Algeria. These projects are at 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, gas and gas condensate production; and

Refining, Marketing and Distribution (“Downstream”). Refining of crude oil, as well as the purchase, transportation, sale and transshipment of crude oil and petroleum products.

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

Intersegment Sales

Rosneft’s two main business segments are interconnected: a portion of the revenues of one main segment is included as expenses of the other main segment. In particular, the holding company, OJSC OC Rosneft, buys crude oil from its producing subsidiaries, part of which it sells outside Russia and the remainder of which it delivers to its proprietary or third party refineries in Russia for processing. Petroleum products are then sold by the holding company to the Company’s marketing subsidiaries for subsequent retail sale in Russia or wholesale in Russia and abroad.

Determining market prices for crude oil in the Russian domestic market, is complicated by the significant intragroup turnover within the vertically integrated oil companies that dominate the market. Transaction prices for crude oil between Rosneft companies are established taking into consideration market prices and transportation costs, but are 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 could give a distorted view of Rosneft’s financial and operating performance.

Call option for OJSC Udmurtneft

On 20 June 2006, TNK-BP announced that it had reached an agreement to sell a 96.86% interest in OJSC Udmurtneft (“Udmurtneft”) to the China Petroleum and Chemical Corporation (“Sinopec”). Earlier, in May 2006, Sinopec had granted the Company an option to purchase a 51% interest in Udmurtneft. On 20 June 2006, the Company announced its intention to exercise the option once Sinopec completes this acquisition. Sinopec became a shareholder of Udmurtneft in August 2006. Sinopec will be responsible for financing the acquisition by Rosneft of the 51% interest in accordance with the option agreement, and the financing is to be repaid out of cash flows derived from the 51% interest, without recourse to the Company.

Udmurtneft is located in the Volga-Ural region and, as of 31 December 2005, had SPE proved crude oil reserves of 551 million barrels (75.32 million tonnes). According to publicly available information, it has 23 producing fields, and in 2005, it produced 122.69 thousand barrels of crude oil per day (5,987 million tonnes of crude oil per year).

Negotiations to complete the transaction are in process as of September 30, 2006.

Acquisitions

Rosneft made a number of significant acquisitions, increased stakes in certain of its subsidiaries and won auctions for a number of licenses during the period being analyzed and thereafter.

Significant Acquisitions

PSA Sakhalin-1

In July Rosneft repaid approximately USD 1.37 billion to ONGC, retiring obligation to ONGC per the carry agreement to finance Rosneft's interest in Sakhalin-1. After redemption, 20% of income and expenses of Sakhalin-1 will be proportionally consolidated into Rosneft's accounts.

OJSC Nakhodka Oil Seatrade Port

In June 2006, the Company purchased 97.51% of the common shares in OJSC Nakhodka Oil Seatrade Port (OJSC Nefteport) for USD 19.5 million.

The Nakhodka Oil Seatrade Port is located in the Novitsky Bay on the western bank of the Nakhodka Gulf and is the largest special commercial trade seaport on Russia's Pacific coast. The oil harbor is open for navigation all year-round and does not require ships to be accompanied by ice-breakers during the winter months.

In 2005, OJSC Nefteport shipped approximately 6 million tons of oil products and serviced over 1,000 vessels. Shipment volumes for 6 months 2006 amounted to approximately 2.6 million tons.

OJSC Nefteport comprises one of the links in the technological and infrastructural chain for Rosneft's storage and transshipment of oil products. With the acquisition of the OJSC Nefteport, Rosneft has therefore completed the establishment of a single self-contained industrial complex in Nakhodka Bay, one of the largest not only in the Far East, but throughout Russia.

Increased Stakes in Subsidiaries

VBRR (All-Russian Bank of Regional Development)

In June 2006, the Company won an auction for 25.49% of the common shares in VBRR, thereby increasing its stake in the common shares of VBRR from 50.98% to 76.47%. The purchase price was RUB 333 million (USD 12 million as of the auction date).

Rosneft - Tuapsenefteprodukt

In January 2006, Rosneft acquired 39.26% of the common shares (30.24% of the share capital) in OJSC Rosneft-Tuapsenefteprodukt, increasing its stake in the common shares from 50.67% to 89.93% and in the total share capital from 38.00% to 68.24%. The purchase price was USD 100 million.

Additional Share Issues

VBRR (All-Russian Bank of Regional Development)

In September 2006, shareholders meeting of OJSC VBRR approved additional issue of 223 500 shares each 10 000 RUR at par which will all be acquired by the Company. The total par value of the shares to be acquired is USD 83 million at the CBR rate as of June 30, 2006.

Daltransgaz

In February 2006, the Company purchased its 25% pro rata share of an additional issue of shares in OJSC Daltransgaz for RUR 722 million (USD 25.6 million as of the payment date). In August 2006, the Company purchased 25% of the additional issue of shares by OJSC Daltransgaz for RUR 525 million (USD 19 million at the exchange rate as of date of transaction), thus maintaining its share at 25% plus one share.

Spin-off and consolidation

RN-Burenie

In March 2006 the Company created an entity LLC "RN-Burenie" in accordance with the Board of Directors' decision to optimize the service segment. During the second quarter of 2006 drilling and other supporting assets were transferred to RN-Burenie from upstream subsidiaries. In the third quarter of 2006 the drilling divisions of the Company (LLC PNG-Burenie, LLC KNG-Burenie and LLC KNG-Sibir) were consolidated into LLC RN-Burenie.

Licenses Won at Auctions

Vankor area licenses

In July 2006 the Company won an auction for the licenses for the development and production of crude oil and gas in the Severo-Charsky oil and gas block at the border of Taimir and Yamalo-Nenetsky Autonomous Okrug. The total cost of the licenses was RUR 4,730 million (USD 176 million at the date of payment). Taking into account this acquisition, the total number of licenses at Vankorsky field in Western Siberia reached 14.

In February 2006, the Company won auctions for the licenses for the exploration and production in the Tukolandskiy, Vadinskiy and Pedomayakhskiy oil and gas license blocks in the Krasnoyarskiy Krai. The total cost of the licenses amounted to RUR 5,377 million (USD 199 million as of the payment date). These blocks will share certain infrastructure with the Vankor field, thereby reducing development costs should commercial volumes of hydrocarbons be discovered.

Other areas

In August 2006, the Company won an auction for the license for the development and production of crude oil and gas in Kulindinsky prospective oil and gas block in Evenkiysky Autonomous Okrug. The total cost of licenses amounted to RUR 1,560 million (USD 58 million at the exchange rate as of the date of payment). The Kulindinsky block is located in the territory of Tungus-Chusky region (the South-Eastern part of Evenkiya).

In June 2006, the Company won an auction for the licenses for the development and production of oil and gas in Danilovsky oil and gas field in Irkutsk region. The total cost of licenses amounted to RUR 1,210 million (USD 45 million as of the date of payment).

In April 2006, the Company won an auction for the licenses for the development and production of crude oil and gas in the Mogdinskiy and Sanarskiy oil and gas license blocks in Irkutsk region. The total cost of the licenses was RUR 2,523 million (USD 94 million as of the payment date). These blocks are located in close proximity to Verkhnechonskoye field, which is currently under development and will be able to share certain infrastructure with the Verkhnechonskoye field, thereby reducing development costs should commercial volumes of hydrocarbons be discovered.

In March 2006, an exploration and production license for the Vostochno-Sugdinskiy block was obtained, as a result of an auction won by the Company in December 2005. An auction fee of USD 10 million was paid in December 2005 and the remaining consideration of RUR 7,170 million (USD 249 million as of December 31, 2005) was paid in 2006.

Planned Consolidation via Share Swap

In the first half of 2006 many of the Company's principal operating subsidiaries had minority interests. In April 2006, the Company's Board of Directors, as well as the boards of directors or other relevant corporate bodies of each of Yuganskneftegaz, Purneftegaz, Selkupneftegaz, Severnaya Neft, Krasnodarneftegaz, Stavropolneftegaz, Sakhalinmorneftegaz, Komsomolskiy Refinery, Tuapsinskiy Refinery, Arkhangelsknefteprodukt, Nakhodkanefteprodukt and Tuapsenefteprodukt (each, a "**Merging Subsidiary**" and collectively, the "**Merging Subsidiaries**"), decided to propose to their respective shareholders the consolidation of each respective Merging Subsidiary into the Company through a statutory merger and an exchange of shares at specified ratios (the "**Share Swap**"). On 2 June 2006, the Company's shareholders, as well as the shareholders of each Merging Subsidiary (other than Sakhalinmorneftegaz) approved the Share Swap. Due to the lack of a quorum at the shareholders' meeting of Sakhalinmorneftegaz called to approve the Contract on merging, the issue was once again considered at the extraordinary meeting on 8 September 2006 when the shareholders of Sakhalinmorneftegaz finally approved the Share Swap.

The Company exchanged its Ordinary Shares for shares of these subsidiaries held by third parties, and these subsidiaries were merged into the Company. The Share Swap has been completed on September 30, 2006.

According to the decisions on reorganization by consolidation into the holding company, approved at the general shareholder meetings, dissenting minority shareholders may require their shares to be repurchased. For this purpose each subsidiary is entitled to use up to 10% of its net assets, as measured under Russian Accounting Standards. As a result of t

he buyback rights having been exercised by the dissenting shareholders, the Merging subsidiaries repurchased shares for the total amount of 222.17 million RUB (USD 8.3 million).

The Company does not expect that creditors of the Merging Subsidiaries will demand prepayment of amounts that would be material to Rosneft.

The Company must also arrange for the transfer of licenses from the Merging Subsidiaries to the Company or their re-issue to the name of the Company.

Key operating data and key financial ratios

The Company monitors and evaluates its activities on an ongoing basis. Key operating data and key financial ratios are given below:

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
KEY OPERATING DATA				
Production data				
Crude oil (thousand barrels per day)	1,567.84	1,427.39	1,540.24	1,423.66
Gas (bcm)	3.21	3.07	6.77	6.12
Crude oil sales and exports (million barrels)				
Crude oil exported outside the CIS	92.10	68.69	175.56	126.63
Crude oil sold in the CIS	9.07	11.78	20.63	24.36
Crude oil sold in Russia	0.73	7.39	3.00	23.04
Gas sales (bcm)	2.19	2.12	4.58	4.42
Petroleum products (million tonnes)				
Total domestic refining throughput	5.47	4.75	11.21	9.49
Petroleum products exported outside the CIS	3.23	3.21	6.50	5.84
Petroleum products sold in the CIS	0.16	0.07	0.29	0.15
Petroleum products sold in Russia, including those purchased by the Company's marketing subsidiaries				
<i>Petroleum products sales via proprietary and rented retail outlets</i>	0.28	0.27	0.52	0.47
<i>Total petroleum products sold in Russia</i>	2.23	1.82	4.66	3.71
KEY FINANCIAL RATIOS				
EBITDA (USD millions)	2,261	1,757	4,178	3,302
EBITDA margin	25.6%	31.9%	25.5%	33.5%
Adjusted free cash flow before interest (USD millions)	760	767	1,785	565
Adjusted net income margin before minority interest	12.5%	17.8%	11.9%	17.3%
Return on average capital employed, annualized	25.2%	20.6%	24.1%	20.4%
Return on average equity, annualized	42.6%	52.2%	39.0%	47.8%
Net debt (USD millions)	11,232	11,212	11,232	11,212
Net debt to capital employed ratio	0.51	0.57	0.51	0.57
Net debt to EBITDA ratio	1.24	1.60	1.34	1.70
Current ratio	0.76	1.03	0.76	1.03
EBITDA/bbl (USD)	15.85	13.53	14.99	12.81
EBITDA/boe (USD)	13.99	11.88	13.11	11.24
Upstream capital expenditures/bbl (USD)	5.24	3.71	4.34	3.02
Upstream capital expenditures/boe (USD)	4.62	3.26	3.80	2.65
Upstream operating expenses/bbl (USD)	2.84	2.43	2.55	2.33
Upstream operating expenses/boe (USD)	2.50	2.14	2.23	2.05
Adjusted free cash flow before interest/bbl (USD)	5.33	5.90	6.40	2.19
Adjusted free cash flow before interest/boe (USD)	4.71	5.18	5.60	1.92

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

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

Upstream capital expenditures/bbl and upstream capital expenditures/boe are calculated for any period by dividing the capital expenditures in the upstream segment during that period by the barrels of crude oil or barrels of oil equivalent, respectively, produced during that period.

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.

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). Operating expenses of oil and gas production exclude a portion of the costs relating to intersegment transactions, mainly operating leases relating to certain oil and gas facilities.

The following table sets forth relevant figures relating to these measures:

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Upstream capital expenditures (USD millions)	747	482	1,210	778
Upstream operating expenses (USD millions)	405	316	711	601
Barrels of crude oil produced (millions)	142.67	129.89	278.78	257.68
Barrels of oil equivalent produced (millions)	161.60	147.95	318.65	293.75

For calculation of key financial measures refer to the section "Selected financial performance indicators".

Main Factors Affecting Results of Operations

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

- Changes in crude oil and refined product prices;
- RUB/USD exchange rate movements and inflation;
- Changes in mineral production tax and export customs duty; and
- Changes in transport tariffs.

Changes in prices, export customs duty and transport tariffs can have a significant impact on the mix of products and export routes the Company chooses, as it seeks to maximize netback prices for the crude oil it produces.

Changes in Crude Oil, Petroleum Product 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 characterized by significant fluctuations

that are determined by the global balance of supply and demand. These prices have increased in recent years, and are currently high. 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 of crude oil, supply and demand for petroleum products, competition in the different markets and distances separating them from the refineries where the crude oil is refined into usable end products or intermediate products.

Average Crude Oil and Refined Products Prices Worldwide and in Russia

	Three months ended June 30, 2006	Three months ended June 30, 2005	Change, %	Six months ended June 30, 2006	Six months ended June 30, 2005	Change, %
World market						
	(in USD per barrel)					
Brent	69.62	51.60	35%	65.69	49.4	32%
Urals (average Med+NWE)	64.80	48.20	34%	61.50	45.27	36%
Dubai-Oman (Singapore)	65.09	47.16	38%	61.70	44.54	39%
	(in USD per tonne)					
Fuel oil 3.5% (average Med)	309	226	37%	296	200	48%
Gasoil 0.2% (average Med)	626	482	30%	589	459	28%
Naphta (average Med)	586	428	37%	551	419	32%
Russian market*						
	(in USD per tonne)					
Fuel oil	225	135	67%	214	105	104%
Diesel fuel	587	474	24%	552	448	23%
Low octane gasoline	589	476	24%	561	451	24%
High octane gasoline	703	624	13%	686	576	19%

* Including VAT

Source: Average rates computed based on Platts (world market), Kortes (Russian market)

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 united system of trunk pipelines, and is a monopoly 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 comprehensive agreement with Gazprom pursuant to which Gazprom would purchase gas, produced by the Company. 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, currently it is still significantly below world price 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 USD 20.55/tcm and USD 19.66/tcm in the first half of 2006 and 2005, respectively, and USD 20.14/tcm and USD 22.12 /tcm in the second quarters of 2006 and 2005, respectively.

RUB/USD Exchange Rate Movements and Inflation

The ruble-U.S. dollar exchange rate and inflation trends in the Russian Federation affect the Company's results of operations since most of Rosneft's revenues from sales of crude oil and petroleum products are denominated in U.S. dollars, while a substantial portion of its expenses is denominated in Russian rubles. Accordingly, the real appreciation of the ruble versus the U.S. dollar negatively affects Rosneft's

margins. The ruble has appreciated against the U.S. dollar in real terms throughout the periods being analyzed and in nominal terms on average as well. Currently, Rosneft does not use currency hedging mechanisms.

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

Inflation and Exchange Rates

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Ruble inflation, (CPI)	1.2%	2.7%	6.2%	8.0%
Ruble/U.S.dollar exchange rate at the beginning of the period	27.76	27.83	28.78	27.75
Ruble/U.S.dollar exchange rate at the end of the period	27.08	28.67	27.08	28.67
Average Ruble/U.S.dollar exchange rate during the period	27.20	28.10	27.68	27.96
Nominal appreciation (depreciation) of the ruble	2.4%	-3.0%	5.9%	-3.3%
Real appreciation (depreciation) of the ruble	3.7%	-0.4%	12.5%	4.4%

Sources: CBR, State Statistics Committee of Russia

Changes in Mineral Production Tax and Export Customs Duty

Mineral production tax and export customs duty composition of Rosneft's total revenues ranged from 25% to 48% during the period being analyzed. The table below sets out the mineral production tax and export customs duty paid by Rosneft during this period. When volumes of hydrocarbon supplies remain unchanged, the mineral production tax and export customs duty reduce to a considerable degree the impact of upward or downward movements in crude oil export prices on the Company's net income from the export of crude oil.

Rates of Mineral Production Taxes and Export Customs Duty □

	Three months ended June 30, 2006	Three months ended June 30, 2005	Change, %	Six months ended June 30, 2006	Six months ended June 30, 2005	Change, %
Mineral production tax						
Crude oil (RUB per tonne)	2,437	1,768	38%	2,333	1,628	43%
Natural gas (RUB per thousand cubic meter)	147	135	9%	147	135	9%
Export custom duty (USD per tonne):						
Crude oil	191	114	68%	179	101	76%
Light and medium distilled products	135	78	73%	132	68	93%
Fuel oil	73	42	73%	71	43	65%

Mineral Production Tax

In the first half of 2006, the rate of mineral production tax for crude oil increased by 43% against the first half of 2005 due to an increase in crude oil prices.

In the second quarter of 2006, the rate of mineral production tax for crude oil increased by 38% against the second quarter of 2005, due to increased crude oil prices. From January 1, 2006, the rate of mineral production tax for gas increased by 9%, to RUR 147 per tcm.

The rate of mineral production tax for crude oil in 2005 and the first half of 2006 was calculated by multiplying the base rate per tonne of crude oil produced by the adjustment ratio equal to $(P - 9) * R / 261$, where “P” is the average Urals price during the fiscal period, and “R” is the average ruble/dollar exchange rate established by the Central Bank of Russia during the fiscal period. The base rate was 419 rubles in 2005. The rate of mineral production tax per thousand cubic meters of gas produced was 135 rubles in 2005.

Mineral production tax was USD 11.18 per barrel of crude oil produced and USD 9.78 per barrel of oil equivalent produced in the first half of 2006 and USD 7.70 per barrel and USD 6.76 per barrel of oil equivalent produced in the first half of 2005.

Export Customs Duty

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

Calculation of Export Customs Duty (from August 2004)

Urals price (USD/barrel)	Export customs duty (USD/tonne)
Below 15	Export customs duty is not levied
15-20	35% of the difference between Urals price in USD per tonne and USD 109.5
20-25	USD 12.78 per tonne plus 45% of the difference between Urals price in USD and USD 146
above 25	USD 29.2 per tonne plus 65% of the difference between Urals price in USD per tonne and USD 182.5

Export duties for petroleum products are established by the Russian government depending on prices in the domestic petroleum products market. Export duties are not payable on exports of crude oil and petroleum products to CIS states, except for Ukraine.

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

Changes in Transport Tariffs

Rosneft transports most of its crude oil through the pipeline network owned and operated by OJSC Transneft, the state-owned oil monopoly engaged in the transportation of oil in Russia and abroad. Transneft's tariffs for the transportation of Rosneft's crude oil through Transneft's pipeline network are set by the Federal Tariff Service (the “FTS”). The overall expense per tonne for the transportation of crude oil depends on the length of the transport route from the producing field to the ultimate destination and the number of Transneft “districts” through which the oil is transported. Rosneft seeks to utilize alternative means of transportation, including the Northern route via Rosneft's Belokamenka export transshipment facility, the Far Eastern route via Rosneft's pipeline “Okha-Komsomolsk-on-Amur” which is located on the Sakhalin Island and the Southern route via the CPC pipeline.

In the first half of 2006 and 2005 Rosneft exported approximately 12% of its petroleum products via Transnefteprodukt's pipeline system. The petroleum products were produced under processing contracts at refineries owned by YUKOS located in Samara region. Transnefteprodukt is a state-owned petroleum product

pipeline monopoly specializing in petroleum products transportation. The FTS is responsible for setting the transportation fees.

Rosneft also transport via railway approximately 24% of its export and domestic sales of crude oil, including crude oil produced by Yuganskneftegaz and Purneftegaz, for sale to China and approximately 80% of its export and domestic sales of petroleum products. The Russian railway system, or RZD, is a state-owned monopoly provider of railway transportation services. RZD's tariffs are also subject to control by FTS and antimonopoly regulation.

Production of crude oil, petroleum products and gas

Rosneft's ability to generate profit depends on its production of crude oil and petroleum products. In addition, as noted above, 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 11 production and development subsidiaries, which are fully consolidated, and at two joint ventures, which it accounts for using the equity method. Yuganskneftegaz and Purneftegaz in Western Siberia and Severnaya Neft in Timano-Pechora collectively account for almost 90% of Rosneft's production in 2005 and the first half of 2006. Yuganskneftegaz accounted for approximately 69%, Purneftegaz 13 and 12% and Severnaya Neft 6% and 7% of production for the first half of 2005 and 2006, respectively.

The following table sets forth Rosneft's crude oil production during the period being analyzed:

(million tonnes)	Three months ended June 30, 2006	Three months ended June 30, 2005	Change, %	Six months ended June 30, 2006	Six months ended June 30, 2005	Change, %
Crude oil production by fully consolidated subsidiaries ⁽¹⁾	19,504	17,757	10%	38,111	35,227	8%
Crude oil production, including the share in production of affiliated enterprises ⁽²⁾	19,565	17,925	9%	38,429	35,549	8%

(1) Crude oil production by subsidiaries includes Rosneft's net share of oil produced under Sakhalin-1 PSA totaling 157 thousand tonnes. Gross amount of oil retained by Rosneft is 197 thousand tonnes, that of royalty (8%) and the government's share (2.07%) -18 thousand tonnes, one-off compensation of costs previously incurred by other participants of the consortium - 17 thousand, pipeline fill-up and other needs (5 thousand tonnes).

(2) Crude oil production, together with the share in production of affiliates, includes 50% share of Rosneft in crude oil produced by Polar Lights and Aday Petroleum (Kazakhstan) joint ventures.

In the first half of 2006 Rosneft increased its production of crude oil by 8% to 38.1 million tonnes, compared to 35.2 million tonnes in the first half of 2005. This growth was largely attributable to increased production by Yuganskneftegaz and Severnaya Neft. Yuganskneftegaz increased its production from 24.8 million tonnes to 26.9 million tonnes, or by 8%, and Severnaya Neft increased its production from 2.2 million tonnes to 2.8 million tonnes, or by 24%. Also, commercial production of crude oil and gas started at Sakhalin-1 PSA from October 2005 and for the first half of 2006 amounted to 1 million barrels of oil equivalent.

In the second quarter of 2006 Rosneft increased its production of crude oil by 10% to 19.504 million tonnes, compared with 17.757 million tonnes in the second quarter of 2005. This organic growth was largely attributable to the growth of crude oil production at the oil fields of Yuganskneftegaz and Severnaya Neft, as well as Selkupneftegaz and Stavropolneftegaz.

Production of Gas

Rosneft is currently the third largest producer of natural and associated gas among Russian oil companies:

(billion cubic meters)	Three months ended June 30, 2006	Three months ended June 30, 2005	Change, %	Six months ended June 30, 2006	Six months ended June 30, 2005	Change, %
Gas production by subsidiaries	3.21	3.07	5%	6.77	6.12	11%
Gas production, including the share in production of affiliates	3.22	3.07	5%	6.78	6.13	11%

In the first half of 2006, gas production increased by 11% to 6.78 bcm. The growth was primarily attributable to the growth of gas production in the oil fields of Krasnodarneftegaz and Selkupneftegaz (Yamalo-Nenetsky Autonomous Okrug). In the first half of 2006, the level of associated gas utilization was 60.9% compared to 62.5% in the first half of 2005.

Production of Petroleum Products

Rosneft refines the crude oil it produces at its two major refineries, Tuapsinskiy Refinery on the Black Sea in the South of Russia and Komsomolskiy Refinery in the Russian Far East. Rosneft also arranges for the crude oil it produces to be processed at refineries owned by third parties. These operations have increased considerably from the beginning of 2005 as a result of acquiring Yuganskneftegaz and allocating oil produced by it to be processed at refineries within the YUKOS group.

Rosneft also owns the Nefteprodukt Experimental Refinery in Moscow and mini-refineries in Gubkinsky in the Yamalo-Nenetsky Autonomous Okrug and in Usinsk in the Komi Republic.

The following table sets forth Rosneft's petroleum product production during the period being analyzed:

(million tonnes)	Three months ended June 30, 2006	Three months ended June 30, 2005	Change, %	Six months ended June 30, 2006	Six months ended June 30, 2005	Change, %
Petroleum products output by Tuapsinskiy, Komsomolskiy, mini-refineries	2.50	2.55	-2%	5.20	4.99	4%
Petroleum products output by third party refineries	2.97	2.20	35%	6.01	4.50	33%
Total output of petroleum products	5.47	4.75	15%	11.21	9.49	18%

In the first half of 2006, Rosneft's output of petroleum products amounted to 11.21 million tonnes, which is 18% more than in the first half of 2005. Rosneft's own refineries output increased by 4% from 4.99 million tonnes in the first half 2005 to 5.20 million tonnes in the first half 2006. The increase is due to commissioning new processing units. Depth of refining by Komsomolskiy Refinery increased from 60.2 % in the first half of 2005 to 61.4 % in the first half of 2006 and by Tuapsinskiy Refinery from 56.1% in the first half 2005 to 56.6% in the first half 2006.

The output of petroleum products at third party refineries (mainly those within the YUKOS group) increased by 33% from 4.50 million tonnes in the first half 2005 to 6.01 million tonnes in the first half 2006. This was due to a processing agreement, which also included the production of motor oil, with two more refineries of the YUKOS group (Syzransky and NovoKuibyshevsky lubricant refineries).

In the second quarter of 2006, Rosneft's output of petroleum products amounted to 5.47 million tonnes, which is 15% more than in the second quarter of 2005. Rosneft's own refineries processing slightly decreased due to the repairs of a processing unit at Komsomolskiy Refinery and amounted to 2.5 million tonnes compared

to 2.55 million tonnes in the corresponding period of 2005. The output of petroleum products at third party refineries increased by 35% and amounted to 2.97 million tonnes.

Sales Revenues

Tables below set forth the analysis of sales of crude oil and petroleum products in the first half of 2005 and 2006, as well as in the second quarter of 2005 and 2006:

Analysis of Sales Revenues

Revenue (million USD)	Three months ended June 30, 2006	Three months ended June 30, 2005	Change, %	Six months ended June 30, 2006	Six months ended June 30, 2005	Change, %
Crude oil						
Crude oil – export & CIS sales	6,279	3,505	79%	11,384	6,199	84%
Europe	4,597	2,616	76%	8,344	4,772	75%
Asia	1,337	536	150%	2,300	755	205%
CIS	345	353	-2%	740	672	10%
Crude oil – domestic	21	177	-88%	79	434	-82%
Gas	44	47	-6%	94	87	8%
Oil and gas sales	6,344	3,729	70%	11,557	6,720	72%
Petroleum products						
Petroleum products – export and CIS sales	1,453	1,048	39%	2,757	1,817	52%
Europe	780	751	4%	1,590	1,232	29%
Asia	625	282	121%	1,081	565	91%
CIS	48	15	219%	86	20	329%
Petroleum products – domestic	954	621	54%	1,869	1,163	61%
Wholesale	809	486	67%	1,589	937	70%
Retail	145	135	7%	280	226	24%
Petroleum products sales	2,407	1,669	44%	4,626	2,980	55%
Support services and other revenues	89	103	-14%	173	164	5%
Total sales	8,840	5,501	61%	16,356	9,864	66%

Analysis of Crude Oil and Petroleum Product Sales Volumes □

Sales Volumes	Three months ended June 30, 2006	Three months ended June 30, 2005	Change,%	Six months ended June 30, 2006	Six months ended June 30, 2005	Change,%
Crude oil	(mln. bbl)					
Crude oil – export & CIS sales	101.17	80.47	26%	196.19	150.98	30%
Europe	72.42	57.64	26%	139.64	110.68	26%
Asia	19.68	11.05	78%	35.92	15.95	125%
CIS	9.07	11.78	-23%	20.63	24.36	-15%
Crude oil – domestic	0.73	7.39	-90%	3.00	23.04	-87%
Crude oil	(mln. tonnes)					
Crude oil – export & CIS sales	13.83	11.00	26%	26.82	20.64	30%
Europe	9.90	7.88	26%	19.09	15.13	26%
Asia	2.69	1.51	78%	4.91	2.18	125%
CIS	1.24	1.61	-23%	2.82	3.33	-15%
Crude oil – domestic	0.10	1.01	-90%	0.41	3.15	-87%
Total crude oil sales	13.93	12.01	16%	27.23	23.79	14%
Petroleum products	(mln. tonnes)					
Petroleum products – export and CIS sales	3.39	3.28	3%	6.79	5.99	13%
Europe	1.76	2.30	-23%	3.82	3.90	-2%
Asia	1.47	0.91	61%	2.68	1.94	38%
CIS	0.16	0.07	125%	0.29	0.15	92%
Petroleum products – domestic	2.23	1.82	23%	4.66	3.71	26%
Wholesale	1.95	1.55	26%	4.14	3.23	28%
Retail	0.28	0.27	4%	0.52	0.47	11%
Total petroleum product sales	5.62	5.09	10%	11.45	9.69	18%
Total crude oil and petroleum product sales	19.55	17.10	14%	38.68	33.48	16%
Gas	2.19	2.12	3%	4.58	4.42	3%

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

Average Crude Oil and Petroleum Products Sales Prices achieved by Rosneft

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

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

□□

	Three months ended June 30, 2006		Three months ended June 30, 2005		Six months ended June 30, 2006		Six months ended June 30, 2005	
	(\$/bbl)	(\$/tonne)	(\$/bbl)	(\$/tonne)	(\$/bbl)	(\$/tonne)	(\$/bbl)	(\$/tonne)
Average export & CIS prices								
Crude oil	62.07	454.05	43.55	318.59	58.03	424.48	41.05	300.32
Europe	63.48	464.34	45.38	331.97	59.75	437.09	43.11	315.39
Asia	67.96	497.19	48.46	354.65	64.04	468.52	47.31	346.11
CIS	38.04	278.23	29.98	219.33	35.87	262.41	27.59	201.84
Petroleum products		428.57		320.01		406.01		303.60
Europe		443.09		327.45		416.19		316.31
Asia		425.17		309.39		403.36		291.24
CIS		300.00		214.29		296.55		133.33
Average domestic price								
Crude oil	28.77	210.00	23.95	175.25	26.33	192.68	18.84	137.78
Gas (USD/thousand cubic meter)		20.14		22.12		20.55		19.66
Petroleum products		427.86		341.41		401.10		313.56
Wholesale		414.10		312.73		384.13		289.54
Retail		525.26		509.43		535.32		477.80

Revenues were USD 16,356 million in the first half of 2006, a 66% increase over the first half of 2005 (USD 9,864 million). Revenues from the sale of crude oil grew by 72% and revenues from the sale of petroleum products by 55%, in the first half of 2006 compared to the first half of 2005. The growth in revenues was due to increased prices and increased sales volumes of crude oil and petroleum products.

Revenues were USD 8,840 million in the second quarter of 2006, a 61% increase over the second quarter of 2005 (USD 5,501 million). Revenues from the sale of oil and gas grew by 70% and revenues from sale of petroleum products by 44% in the second quarter of 2006 compared to the second quarter of 2005. The growth in revenues resulted from increased prices and increased sales volumes of crude oil and petroleum products.

Crude Oil Export Sales

In the first half of 2006, crude oil export revenues were USD 10,644 million compared to USD 5,527 million in the first half of 2005, an increase of 5,117 million or 93%. The growth resulted from a 40% increase in prices, which increased revenues by USD 3,008 million, and a 34% increase in sales volumes, which had a positive impact on revenues of USD 2,109 million. The price increases were attributable to the general growth

of world prices; in particular, the average price for Urals Mediterranean rose by 36%. Sales volumes grew, mainly in respect of sales to Asia primary due to an increase in the annual quota for sales to China National United Petroleum Corporation from 4.02 million tonnes in 2005 to 8.88 million tonnes in 2006 under the long-term contract, entered into in January 2005, in connection with the financing of the acquisition of Yuganskneftegaz.

Revenues from export oil sales were USD 5,934 million in the second quarter of 2006 compared to USD 3,152 million in the second quarter of 2005, an increase of 88%. The growth resulted from a 42% increase in prices, which increased revenues by USD 1,721 million and an increase in sales volumes, which had a positive impact on revenues of USD 1,061 million. The price increases were attributable to the general growth of world prices; in particular, the price for Urals Mediterranean rose by 34% in the period being analyzed.

Crude Oil CIS Sales

In the first half of 2006, revenues from the sale of crude oil in the CIS were USD 740 million, an increase of 10%, compared to USD 672 million in the first half of 2005. A 30% increase in prices which would have increased revenues by USD 170 millions, was offset by a 15% decrease in sales volumes, which had a negative impact on revenues of USD 102 million. Volumes grew due to increase in supplies to the Republic of Belarus, which is one of Rosneft's priority markets due to absence of export customs duty. The growth in volumes sold to Belarus was offset by a reduction of volumes sold to Ukraine, a less profitable CIS market due to the presence of export customs duty and lower prices.

In the second quarter of 2006, revenues from the sale of crude oil in the CIS were USD 345 million compared to USD 353 million in the second quarter of 2005, a decrease of 2%. This resulted from a 23% decrease in sales volumes, which would have decreased revenues by USD 81, but this was partially offset by a 26% increase in prices, which had a positive impact of USD 73 million.

Crude Oil Domestic Sales

The volume of crude oil sold in Russia decreased significantly in the first half of 2006 due to low profitability of such sales. In the first half of 2006, crude oil domestic sales decreased by USD 355 million to USD 79 million. This resulted from an 87% decrease in sales volume which contributed USD 378 million of the decrease in revenues, which was partially offset by a 40% increase in prices which had a positive impact on revenues of USD 23 million. The decline in volumes resulted from the allocation of more crude oil to export sales and refining to achieve maximum netbacks.

Starting from the second quarter of 2005, domestic oil sales have significantly decreased. In the second quarter of 2006 revenues from domestic sales were USD 21 million, a decrease of USD 156 million compared to the second quarter of 2005. This resulted from a 90% decrease in sales volumes, which would have decreased revenues by USD 159 million, but this was partially offset by a 20% price growth, which had a positive impact of USD 3 million.

Petroleum Products Export and CIS Sales

Revenues from the export of petroleum products was USD 2,757 million in the first half of 2006 compared to USD 1,817 million in the first half of 2005, an increase of 52%. The growth of petroleum products sales revenue was attributable to a 34% increase in prices, which increased revenues by USD 695 million, and a 13% growth in sales volumes, which had a positive impact on revenues of USD 245 million. The growth in prices was due to the overall increase in world prices; in particular, the average price for fuel oil Med grew by 48%. The growth in volumes was mainly to Europe, CIS and Asia.

In the second quarter 2006 revenues from export sales of petroleum products were USD 1,453 million compared to USD 1,048 million in the second quarter of 2005, an increase of 39%. The growth in revenues is attributable to a 34% price growth which increased revenues by USD 368 million, and a 4% increase in sales volumes, which had a positive impact on revenues of USD 37 million. The growth in prices was due to the overall increase in world prices; in particular, the price for fuel oil Med grew by 37%.

Domestic Sales of Petroleum Products

In the first half of 2006 revenue from the sale of petroleum products on the domestic market grew by 61% to USD 1,869 million compared to USD 1,163 million in the first half of 2005. The growth of petroleum

products domestic revenue was attributable to a 28% average price increase, which increased revenues by USD 408 million and a 26% increase in sales volume, which had a positive impact on revenues of USD 298 million.

The growth in sales prices was mainly attributable to growth in world prices of petroleum products and inflation in Russia. The volume growth was mainly due to an increase in crude oil production and a decrease in domestic crude oil sales that was facilitated by the agreements signed at the beginning of 2005 with YUKOS group refineries for the refining of crude oil produced by Yuganskneftegaz.

In the second quarter of 2006, revenue from the sale of petroleum products at the domestic market was USD 954 million compared to USD 621 million in the second quarter of 2005, an increase of 54%. The growth of petroleum products domestic revenue was attributable to a 25% price increase, which increased revenues by USD 141 million, and a 23% increase in sales volume, which had a positive impact on revenues of USD 192 million.

Gas Sales

In the first half of 2006, revenue from the sale of gas was USD 94 million compared to USD 87 million in the first half of 2005, an increase of 8%. The growth in gas sales revenue was attributable to a 4% increase in prices, which increased revenues by USD 4 million and a 3% growth in sales volumes which increased revenues by USD 3 million.

In the second quarter of 2006, revenue from the sale of gas was USD 44 million compared to USD 47 million in the second quarter of 2005, a decrease of 6%. A decrease of USD 4 million in revenues from sales of gas is attributable to a 9% decrease in prices, and a 3% increase in sales volume resulted in an increase in revenues by USD 1 million.

Support Services and Other Revenues

In the first half of 2006 support services and other revenues were USD 173 million which is 5% higher than in the first half of 2005. This growth was mainly attributable to an increase in the volume and value of construction and transshipment services and sales of materials.

In the second quarter of 2006 support services and other revenues were USD 89 million which is 14% lower than in the second quarter of 2005.

Costs, Expenses and Net Income

The following table sets forth Rosneft's costs and expenses during the period being analyzed:

(USD million)	Three months ended June 30, 2006	Three months ended June 30, 2005	Change %	Six months ended June 30, 2006	Six months ended June 30, 2005	Change, %
Production and operating expenses	519	411	26%	940	768	22%
Cost of purchased oil, petroleum products and refining costs	557	175	218%	1,102	305	261%
General and administrative expenses	181	100	81%	348	186	87%
Pipeline tariffs and transportation costs	764	538	42%	1,457	896	63%
Exploration expenses	63	39	62%	98	64	53%
Depreciation, depletion and amortization	408	361	13%	792	698	13%
Accretion expense ⁽¹⁾	8	9	-11%	16	17	-6%
Taxes other than income tax	1,866	1,176	59%	3,440	2,200	56%
Export customs duty	2,629	1,305	101%	4,793	2,143	124%
Total operating expenses	6,995	4,114	70%	12,986	7,277	78%

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

In the first half of 2006, total operating expenses were USD 12,986 million, which is 78% higher than in the first half of 2005 when they were USD 7,277 million. The growth in costs and expenses was driven by higher amounts of export customs duty and mineral production tax, pipeline tariffs for transportation of oil and petroleum products, and by higher amounts of cost of crude oil purchases from Sakhalin-1 PSA. In the second quarter of 2006 costs and expenses were USD 6,995 million, a 70% increase compared to the second quarter of 2005.

Production and Operating Expenses

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

Of the total production and operating expenses, the upstream and downstream segments accounted for USD 711 million and USD 162 million respectively in the first half of 2006 and USD 601 million and USD 134 million respectively in the first half of 2005.

In the second quarter of 2006, production and operating costs were USD 519 million compared to USD 411 million in the second quarter of 2005, an increase of 26%. The main contributors (excluding ruble appreciation) were an increase in staff and employees salaries and an increase in the cost of materials used in the downstream segment.

In the first half of 2006, production and operating expenses increased by USD 172 million compared to the first half of 2005, or by 22%. The increase is mostly attributable to higher production volumes, the appreciation of the Russian ruble, higher electricity tariffs, raw material and supplies costs, and an increase in service costs for well workovers and enhanced oil recovery. Average salaries and allowances were also raised throughout the Company at the beginning of 2006.

In the first half of 2006 and 2005, operating production expenses were USD 2.55 and USD 2.33 per barrel of crude oil produced and USD 2.23 and USD 2.05 per barrel of oil equivalent produced, respectively.

In the second quarter of 2006 and 2005 operating production expenses were USD 2.84 and USD 2.43 per barrel of crude oil produced and USD 2.50 and USD 2.14 per barrel of oil equivalent produced, respectively.

Downstream production and operating expenses include costs of services provided to third parties (such as transportation and storage of oil products), operating costs of marketing companies, operating costs of oil refineries, and other items.

These measures are defined above under "Key Operating Data and Key Financial Ratios".

Cost of Purchased Oil and Petroleum Products

Cost of purchased oil and petroleum products includes crude oil and petroleum product procurement costs and cost of refining Rosneft's crude oil at third party refineries.

The following table shows Rosneft's third party refining costs and crude oil and petroleum product procurement costs during the period being analyzed:

	Three months ended June 30, 2006	Three months ended June 30, 2005	Change, %	Six months ended June 30, 2006	Six months ended June 30, 2005	Change, %
Refining fees paid to third party refineries (USD millions)	141	67	110%	246	124	98%
Rosneft crude oil throughput at third party refineries (millions of tonnes)	3.11	2.47	26%	6.36	4.93	29%
Refining fees per tonne (USD)	45.27	26.85	69%	38.58	25.15	53%
Cost of procurement of petroleum products from third parties by the downstream segment ⁽¹⁾ (USD millions)	98	107	-8%	232	180	29%
Procurement of petroleum products from third parties by the downstream segment ⁽¹⁾ (millions of tonnes)	0.19	0.23	-17%	0.43	0.39	10%

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

The cost of refining crude oil at third party refineries in the first half of 2006 grew by 98%, which is explained by a 29% increase in the volumes of refining and tariffs. The cost per tonne of refining at third parties' refineries increased by 53% compared to 2005 due to a revised agreement with YUKOS to cover capital expenditures in certain refineries to meet the new quality standards EURO-3 and due to expanding the product mix to include more expensive petroleum products, in particular, lubricants.

In the first half of 2006 the cost of purchased petroleum products was USD 232 million, a 29% increase compared to the first half of 2005 (USD 180 million). The increase is mainly attributable to the growth of domestic purchase prices of oil products and a minor increase in purchased volumes.

In the first half of 2006 Rosneft purchased almost all crude oil (0.8 million tonnes) produced by the Sakhalin-1 PSA, a consortium of companies headed by Exxon Neftegaz Ltd., for USD 170 million. Approximately 0.6 million tonnes of crude oil were supplied for refining to the Company's refinery in Komsomolsk-on-Amur, and the rest were exported to Asia. Oil production under this project was started in October 2005, and exports via the Consortium's own terminal in De-Kastri are expected to commence in the fourth quarter of 2006.

In addition, Rosneft purchased crude oil from third parties for shipment via the CPC system within the existing quota. Volumes of oil purchased from third parties and transported through the CPC system were 0.9 million tonnes in the first half of 2006 (USD 454 million). There were no purchases of such crude oil in the first half of 2005 since there was no need to meet Rosneft's quota at that time, which increased in August 2005.

General and Administrative Expenses

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

General and administrative expenses in the first half of 2006 increased to USD 348 million compared to USD 186 million, an 87% increase compared to the first half of 2005. This increase was mainly due to following circumstances: auditing, legal, banking, consultancy, valuation and other professional services were USD 60 million in the first half of 2006 versus USD 18 million in 2005; salaries, bonuses and social benefits were USD 140 million in the first half of 2006 versus USD 99 million in the first half of 2005 due to increases in staff. In addition office rent and insurance costs increased in 2006. Following the decision of High Arbitrage court of Russian Federation the Company accrued provision for commitments and contingencies of Severnaya Neft in the amount of USD 24 million in the first half of 2006.

In the second quarter of 2006, general and administrative expenses were USD 181 million, 81% more than in the second quarter of 2005, as described above.

Pipeline Tariffs and Transportation Costs

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

Pipeline tariffs and transportation costs grew to USD 1,457 million in the first half of 2006 from USD 896 million in the first half of 2005, i.e. by 63% due to an increase in the volume of transported oil and in the tariffs of natural monopolies.

In the first half of 2006 Rosneft transported 11 million tonnes (80 million barrels) of crude oil via Transneft to refineries and about 23.7 million tonnes or 173 million barrels (of which 16.7 million tonnes via pipelines) for export sales, and in the first half of 2005 – 9.9 million tonnes or 72 million barrels and 19.4 million tonnes or 141 million barrels (of which 15.6 million tonnes via pipelines) respectively. Domestic tariffs increased by 19% and export tariffs by 21%.

Also, in the first half of 2006, Rosneft supplied via rail approximately 3.6 million tonnes (26 million barrels) to refineries and about 8 million tonnes or 58 million barrels (of which 2.2 million tonnes via rail) for export sales as compared to 3.6 million tonnes or 26 million barrels and 4.1 million tonnes or 30 million barrels (of which 1.5 million tonnes via rail) respectively in the first half of 2005. Domestic rail tariffs increased by 17% and export tariffs by 6%. The main driver of domestic rail tariffs' growth by 12.9 % was the overall increase in RZD tariffs and the abolishment of the discount in early 2006 granted to Rosneft by RZD in 2005, for crude oil supplies to Komsomolsky Refinery in the Far East of the Russian Federation. Increased transportation volumes were due to oil supplies to China under the long-term contract signed in January 2005 with CNPC (see also "Crude Oil Export Sales"). A discount for supplies to China was granted by RZD provided Rosneft transports the minimum annual volumes agreed in advance.

In the second quarter of 2006 pipeline tariffs and transportation costs increased to USD 764 million compared to USD 538 million in the second quarter of 2005, which represents a 42% increase as described above.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization include depreciation of oil and gas producing assets, and other production and non-production assets.

In the first half of 2006, depreciation, depletion and amortization was USD 792 million compared to USD 698 million in the first half of 2005. The 13% increase was mainly due to the depreciation of capital expenditure made in 2005 and first half of 2006.

Taxes Other than Income Tax

Taxes other than income tax include mineral production tax, excises for petroleum products, the unified social tax, property tax and other taxes. Taxes other than income tax have increased as a percentage of total revenue throughout the period under review, mainly due to the impact of mineral production tax.

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

(USD million)	Three months ended June 30, 2006	Three months ended June 30, 2005	Change, %	Six months ended June 30, 2006	Six months ended June 30, 2005	Change, %
Mineral production tax	1,684	1,065	58%	3,116	1,984	57%
Excise tax	41	39	3%	87	89	-3%
Social security	51	31	65%	86	59	45%
Property tax	7	21	-65%	30	41	-26%
Land tax	2	5	-53%	4	7	-46%
Tax % and penalties	37	8	381%	64	8	708%
Other taxes and payments	44	7	468%	53	12	344%
Taxes other than income tax	1,866	1,176	59%	3,440	2,200	56%

In the first half of 2006, taxes other than income tax increased by 56% to USD 3,440 million compared to USD 2,200 million in the first half of 2005. The growth in taxes resulted mainly from an increase in mineral production tax of 57% (or by USD 1,132 million) caused by an 8% in crude oil production and a 43% increase in the tax rate. Decrease in property tax was due to reversal of previous year's tax accrual for property tax privilege used by the Company.

In the second quarter of 2006, taxes other than income tax increased by 59% to USD 1,866 million compared to USD 1,176 million in the second quarter of 2005. The growth in taxes resulted mainly from an increase in mineral production tax of 58% (or USD 619 million), caused by a 38% increase in tax rate and a 8% increase in oil production.

Export Customs Duty

Export customs duty payable by the Company includes crude oil and petroleum product export customs duties. Export customs duty is discussed above under "Main Factors affecting Results of Operations—Changes in Mineral Production Tax and Export Customs Duty." Export customs duty has increased as a percentage of total revenues through the period being analyzed.

The following table sets forth Rosneft's export duties during the periods being analyzed:

(USD million)	Three months ended June 30, 2006	Three months ended June 30, 2005	Change, %	Six months ended June 30, 2006	Six months ended June 30, 2005	Change, %
Export duty for crude oil	2,306	1,093	111%	4,140	1,848	124%
Export duty for refined products	323	212	52%	653	295	121%
Total export customs duty	2, 629	1,305	102%	4,793	2, 143	124%

Export customs duties were USD 4,793 million in the first half of 2006 compared to USD 2,143 million in the first half of 2005, i.e. 124% growth. The increase resulted from 30% increase in the volumes of crude oil exported and a 13% increase in petroleum products exported, and an increase in tariffs of export customs duties in the range of 65-93% depending on the kind of hydrocarbons.

Export customs duties were USD 2,629 million in the second quarter of 2006 compared to USD 1,305 million in the second quarter of 2005. The 102% increase resulted from factors described above.

Exploration Expenses

Exploration expenses mainly represents expenses relating to exploratory drilling, shooting seismic, and geological and geophysical costs. Exploratory drilling costs are capitalized if commercial reserves of oil and gas are discovered, or expensed in the current period in the event of unsuccessful exploration efforts.

Exploration expenses increased by 53% in the first half of 2006 to USD 98 million compared to USD 64 million in the first half of 2005. The increase was mainly due to an increase in seismic, geological and geophysical works in Yuganskneftegaz, Vankor fields, Severnaya Neft.

In the second quarter of 2006 exploration expenses increased for 62% to USD 63 million, compared to USD 39 million in the second quarter of 2005. This was mainly due to the transfer of seismic, geological and geophysical works to the second quarter of 2006. Exploration work was scheduled for the first quarter of 2006 but was not performed because of the heavy frost in Yuganskneftegaz, Severnaya Neft and Vankorneft fields.

Interest Expense

Interest expense decreased by 5% to USD 373 million in the first half of 2006 compared to USD 391 million in the first half of 2005. In April 2006 the Company entered into a contract providing relief on conditions of existing loan agreements which decreased interest rates to LIBOR plus 0.7% (previously LIBOR plus 3%) for loans totaling 5,730 million USD as of 31 December 2005 and decreasing interest rates to LIBOR plus 0.65% (previously LIBOR plus 1.8-2.2%) for loans totaling 3,177 million USD as of 31 December 2005. In the first half of 2005 the Company also refinanced current liabilities by attracting long-term loans at lower interest rates. Newly obtained cheaper financing was used to repay loans with a higher interest rate at the amount of 1,397 million USD.

In the second quarter of 2006 interest expense decreased by 18% to USD 170 million compared to USD 200 million in the second quarter of 2005.

(Loss) / Gain on Disposal of Property, Plant and Equipment

The Company disposes off property, plant and equipment from time to time. In the first half of 2006 losses from PPE disposition were USD 17 million compared to USD 2 million in the first half of 2005 due to the write-off of certain social infrastructure assets which were financed by the oil businesses.

Gain on Disposal of Share in CJSC Sevmorneftegaz

In the first half of 2005, Rosneft sold a 50% interest in CJSC Sevmorneftegaz held by Purneftegaz to Gazprom for USD 1,303 million. CJSC Sevmorneftegaz is developing the Prirazlomnoye and Shtokmanovskoye fields in Yamalo-Nenetsky Autonomous Okrug. Under the terms of the sale, Gazprom paid for this interest in December 2004, while title to the interest passed to Gazprom in the second quarter of 2005. Gazprom also had the right to notify the Company not later than June 2005 of its intention to sell the acquired interest back to the Company, in which case the Company would be obliged to repurchase and pay for it. Gazprom did not exercise this right. Therefore, in June 2005 Rosneft reported proceeds from the sale of its interest in CJSC Sevmorneftegaz in the amount of USD 1,303 million.

Foreign Exchange (Loss) / Gain

In the first half of 2006, Rosneft's foreign exchange loss was USD 277 million compared to a gain of USD 159 million in the first half of 2005. The loss resulted from the impact of the appreciation of the ruble against the U.S. dollar in the first half of 2006 compared to its depreciation in the first half of 2005. As a result, the Company's ruble-denominated net monetary liability position increased when denominated in US dollars but remain unchanged when denominated in rubles. The ruble-denominated net monetary position is negative mainly due to the inclusion in the Company's balance sheet of Yuganskneftegaz tax liabilities and deferred taxes.

In the second quarter of 2006 foreign exchange loss of Rosneft was USD 118 million compared to a foreign exchange gain of USD 145 million in the second quarter of 2005. The loss of the second quarter of 2006 resulted from the impact of the appreciation of the ruble against the U.S. dollar on the Company's ruble-denominated net monetary liabilities.

Income Tax Expenses

The following table compares the Company's effective income tax rate under US GAAP and the current income tax rate in Russia, where most of the Company's assets are located and most of its operations are conducted.

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Effective income tax rate for Rosneft under US GAAP	30%	26%	30%	26%

The Company does not pay taxes on consolidated income before taxes under Russian law. Income tax is calculated for each subsidiary based on its profits under Russian Accounting Standards. The U.S. GAAP effective profit tax rate during the reporting period was higher than the maximum rate of 24% established by the Russian tax legislation throughout the period under review. This arose mainly because certain expenses incurred by the Company, such as social and charitable expenses, are not deductible for tax purposes, as well as certain expenses accrued in accordance with US GAAP. The effective tax rate also increased due to the tax on ruble-denominated exchange gains which occurred as a result of the USD-denominated loans received by Rosneft due to a the decrease in the US dollar rate, which was not reported in the US GAAP accounting records.

Income tax expense was USD 819 million in the first half of 2006 compared to USD 947 million in the first half of 2005. In particular, the current income tax expense decreased from USD 987 million to USD 954 million, while deferred taxes increased from USD 40 million to USD 135 million. The current income tax expense decreased due to the fact that income tax in the first half of 2005 included USD 313 million charge relating to proceeds from the sale of Rosneft interest in Sevmorneftegaz.

Minority Interest in Subsidiaries' Earnings

Minority interest in subsidiaries' earnings was USD 74 million in the first half of 2006 compared to USD 314 million in the first half of 2005.

The primary changes in minority interest were caused by a decrease in net income of Yuganskneftegaz in the first half of 2006 due to foreign exchange losses compared to the gains in the first half of 2005, when minority interest was USD 121 million, and in Rosneft-Purneftegaz where minority interest in the first half of the year was USD 173 million as a result of proceeds from the divestment of the 50% interest in Sevmorneftegaz described above.

In the second quarter of 2006, minority interest in Rosneft subsidiaries' earnings was USD 31 million compared to USD 306 million in the second quarter of 2005. The decrease was due to the reasons explained above.

Net Income

As a result of the factors discussed above, net income adjusted for proceeds received from the sale of Sevmorneftegaz increased by 20.4% in the first half of 2006 compared to the first half of 2005, and by 28.7% in the second quarter of 2006 compared to the second quarter of 2005. As a percentage of total revenues, net income was 11.9% and 17.3% in the first half of 2006 and 2005 respectively.

Liquidity and Capital Resources

Cash Flows

The principal items of the statement of cash flows for the second quarter and first half of 2006 and 2005 are as follows:

(USD million)	Three months ended June 30, 2006	Three months ended June 30, 2005	Change, %	Six months ended June 30, 2006	Six months ended June 30, 2005	Change, %
Net cash provided by operating activities	1,410	1,219	16%	2,823	1,167	142%
Net cash used in investing activities	(1,399)	(541)	158%	(2,905)	(941)	209%
Net cash provided by / (used in) financing activities	658	(620)	-206%	57	(651)	-109%

Net Cash Provided by Operating Activities

Net cash provided by operating activities was USD 2,823 million and USD 1,167 million in the first half of 2006 and 2005 respectively. The operating cash flows before changes in operating assets and liabilities net of acquisitions were USD 2,864 million compared to USD 2,051 million in the first half of 2006 and 2005 respectively, this reflected higher net income (USD 1,879 million and 1,083 million net of income from the sale of Sevmornetgaz in the first half of 2006 and 2005) and higher non cash charges to net income, mainly the impact of foreign exchange movements on cash plus cash equivalents and deferred tax (USD 230 million in the first half of 2006 compared to USD 57 million in the first half of 2005).

Increase in operating assets and liabilities net of acquisitions amounted to USD 41 million in the first half of 2006, which resulted mainly from increases in accounts receivable (due to an increase in sales volumes and prices) and combined with an increase in accounts payable.

Increase in operating assets and liabilities net of acquisitions was USD 884 million in the first half of 2005 which resulted mainly from increases in accounts receivable, sales and export VAT, combined with a reduction in accounts payable and accrued liabilities. These increase were partially offset by increased income tax liabilities and other tax liabilities.

These changes resulted from the significant increase in the scale of Rosneft's business following the acquisition of Yuganskneftegaz. In addition, the increase in accounts receivable also reflected a non-recurring change resulting from the initially low level of accounts receivable in Yuganskneftegaz, which normalized during 2005.

Net Cash Used in Investing Activities

Net cash used in investing activities was USD 2,905 million in the first half of 2006 compared to USD 941 million in the first half of 2005. The increase is principally due to higher capital expenditures amounting to almost USD 1.4 billion (see the details below), acquisition of new entities and additional shares in subsidiaries and the acquisition of YUKOS' debts from a consortium of Western banks in the amount of USD 483 million, of which USD 463 millions was included in the cash flow statement for 2006.

Net cash used in investing activities in the second quarter of 2006 was USD 1,399 million compared to USD 541 million in the second quarter of 2005. The change was due to the factors described above.

Net Cash Provided by / (Used in) Financing Activities

Net cash provided by financing activities was USD 57 million in the first half of 2006 compared to USD 651 million used in the first half of 2005. Changes for the first half of 2005 reflect the net repayments of short-term and long-term debt, as compared with a near balanced net change in the first half of 2006.

Net cash provided by financing activities amounted to USD 658 million in the second quarter of 2006 compared to used USD 620 million in the second quarter of 2005. The increase was primarily due to the receipt of USD 1.5 billion from Barclays under a credit facility offset partially by a net repayment of loans in the amount of USD 500 million in the corresponding 2005 period.

Capital Expenditures

Rosneft's total capital expenditures by types of activities for the first half of 2006 and 2005, and for the second quarter of 2006 and 2005 is as follows:

(USD million)	Three months ended June 30, 2006	Three months ended June 30, 2005	Change,%	Six months ended June 30, 2006	Six months ended June 30, 2005	Change,%
Upstream	747	482	55%	1,210	778	56%
Downstream	81	74	9%	113	88	28%
Other activities	-12	27	-146%	80	29	175%
Total capital expenditures	816	583	40%	1,403	895	57%

Rosneft's total capital expenditures increased by 57% (or by USD 508 million) to USD 1,403 million in the first half of 2006 compared to USD 895 million in the same period of 2005.

The growth of capital expenditures in the first half of 2006 was driven primarily by the upstream segment where capital expenditures increased by 56% (or by USD 432 millions). This capital expenditure growth was mainly attributable to investments in Yuganskneftegaz and the Vankor fields. Further, Rosneft paid USD 464 million for new licenses to oil and gas fields in East Siberia.

Capital expenditures in the downstream sector were USD 113 million, a 28% growth in the first half of 2006 due to the acquisition of several gasoline stations in St.Petersburg, expansion of the network in the Far East and Altai Region and reconstruction of the sea terminal at Rosneft-Tuapsenefteprodukt.

Capital expenditures in other activities was USD 80 million in the first half of 2006 compared to USD 29 million in the same period of 2005, mainly due to the purchase of real estate for additional office space in Moscow.

In addition to capital expenditures described above, the Company made acquisitions and increased its shareholdings in certain subsidiaries. In the first half of 2006 Rosneft spent USD 19.5 million to purchase OJSC Nefteport and increased its shareholding in Rosneft-Tuapsenefteprodukt (USD 100 million). In the first half of 2005 the Company increased its interest in Rosneft-Krasnodarneftegaz (USD 110 million) and purchased 25% of additionally issued of shares in OJSC Daltransgaz (USD 26 million).

Debt Obligations

Rosneft's total loans and borrowings increased marginally from USD 12,203 million as of December 31, 2005 to USD 12,398 million at June 30, 2006. As at December 31, 2005 and June 30, 2006, 85.5% and 87.7% of Rosneft's borrowings were secured against crude oil export contracts. Of the total exported crude oil volumes in the first half of 2006 and in the first half of 2005, 27.21 % and 18.89 % were sold under contracts that were pledged as of June 30, 2006 and 2005.

Rosneft's long-term borrowings (excluding current portion of long-term debt) increased from USD 8,198 million at December 31, 2005 to USD 8,558 million at June 30, 2006. The rate of interest charged on the Company's long-term bank loans (denominated in US\$) increased from 4.35% to 12.92% p.a. Weighted average interest rates on these loans were LIBOR plus 0.74% and LIBOR plus 2.19%, as of June 30, 2006 and as of December 31, 2005, respectively.

Rosneft's short-term borrowings (including the current portion of long-term debt) decreased from USD 4,005 million at December 31, 2005 to USD 3,840 million at June 30, 2006. The average rates of interest

on Rosneft's short-term borrowings dominated in US dollars ranged from LIBOR plus 2% to LIBOR plus 2.81% per annum as of 30 June 2006. The ruble denominated loans bear average interest rates of 2.5% to 8% per annum as of 30 June 2006.

The following table shows the scheduled maturities of Rosneft's long-term debt outstanding as of June 30, 2006:

	<u>(USD million)</u>
Up to December 31, 2006	1,121
2007	2,264
2008	2,545
2009	2,450
2010	2,104
2011 and after	<u>251</u>
Total long-term debt	<u><u>10,735</u></u>

Rosneft's plan for 2006 is to finance its budgeted capital expenditures, interest and dividends mainly out of operating cash flows which Rosneft expects to increase through higher sales volumes (as a consequence of higher production volumes). Simultaneously, Rosneft intends to improve its debt profile. For this purpose, Rosneft intends to continue to rely on long-term borrowings for its financing needs, decreasing the percentage of Rosneft's secured debt and decreasing the charges associated with Rosneft debt. These activities are aligned with Rosneft's ongoing efforts to improve its operating performance.

Selected financial performance indicators

The Company monitors and evaluates its activities on an on-going basis. Selected performance indicators, as well as other significant financial ratios, are provided below.

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
KEY FINANCIAL RATIOS				
EBITDA (USD millions)	2,261	1,757	4,178	3,302
EBITDA margin	25.6%	31.9%	25.5%	33.5%
Adjusted free cash flow before interest (USD millions)	760	767	1,785	565
Adjusted net income margin before minority interest	12.5%	17.8%	11.9%	17.3%
Return on average capital employed (ROACE), annualized	25.2%	20.6%	24.1%	20.4%
Return on average equity (ROAE), annualized	42.6%	52.2%	39.0%	47.8%
Net debt (USD millions)	11,232	11,212	11,232	11,212
Net debt to capital employed ratio	0.51	0.57	0.51	0.57
Net debt to EBITDA ratio, annualized	1.24	1.60	1.34	1.70
Current ratio	0.76	1.03	0.76	1.03

Calculation of adjusted free cash flow before interest

(USD millions)	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Net cash provided by operating activities	1,410	1,219	2,823	1,167
Capital expenditures	(816)	(583)	(1,403)	(895)
Free cash flow	594	636	1,420	272
Cash interest payments	166	131	365	293
Adjusted free cash flow before interest	760	767	1,785	565

Calculation of EBITDA Margin

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Net income	1,077	1,662	1,879	2,386
Minority interest in subsidiaries' earnings	31	306	74	314
Income tax expense	484	690	819	947
Total other income/(expenses)	253	(1,271)	598	(1,060)
Operating income	1,845	1,387	3,370	2,587
Accretion expense ⁽¹⁾	8	9	16	17
Depreciation, depletion and amortization	408	361	792	698
EBITDA	2,261	1,757	4,178	3,302
Total revenues	8,840	5,501	16,356	9,864
EBITDA margin	25.6%	31.9%	25.5%	33.5%

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

Calculation of Adjusted Net Income Margin before Minority Interest

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Net income	1,077	1,662	1,879	2,386
Minority interest in subsidiaries' earnings	31	306	74	314
Gain on disposal of share in CJSC Sevmorneftegas	-	(1,303)	-	(1,303)
Tax on gain on disposal of share in CJSC Sevmorneftegas		313		313
Adjusted net income before minority interest in subsidiaries' earnings	1,108	978	1,953	1,710
Sales revenues	8,840	5,501	16,356	9,864
Adjusted net income margin before minority interest in subsidiaries' earnings	12.5%	17.8%	11.9%	17.3%

Calculation of Capital Employed and Related Indicators

	31.12.2004	31.12.2005	31.03.2005	30.06.2005	31.03.2006	30.06.2006
Short-term loans and current portion of long-term debt	4,720	4,005	4,977	3,775	3,925	3,840
Long-term debt	9,022	8,198	8,668	8,026	7,708	8,558
Cash and cash equivalents (-)	(1,033)	(1,173)	(531)	(589)	(489)	(1,166)
Net debt	12,709	11,030	13,114	11,212	11,144	11,232
Shareholders' equity	3,335	7,433	4,059	5,713	8,235	8,888
Minority interest	2,535	1,860	2,491	2,718	1,842	1,851
Equity	5,870	9,293	6,550	8,431	10,077	10,739
Capital employed	18,579	20,323	19,664	19,643	21,221	21,971
Average Equity			7,491	7,151	10,408	10,016
Average Capital employed			19,654	19,111	21,956	21,147

Calculation of Return on Average Capital Employed (ROACE)

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Operating income	1,845	1,387	3,370	2,587
Income tax	(484)	(690)	(819)	(947)
Income tax on gain on disposal of share in CJSC Sevmorneftegaz		313		313
Return used for calculation of ROACE	1,361	1,010	2,551	1,953
Average capital employed	21,596	19,654	21,147	19,111
ROACE, annualized	25.2%	20.6%	24.1%	20.4%

Calculation of Return on Average Equity (ROAE)

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Adjusted net income before minority interest	1,108	978	1,953	1,710
Average Equity, including Minority Interest	10,408	7,491	10,016	7,151
ROAE, annualized	42.6%	52.2%	39.0%	47.8%