



ROSNEFT

O I L C O M P A N Y

OPEN JOINT STOCK COMPANY

**Management's Discussion and Analysis of Financial Position and Results of Operations for
the Nine Months and Third Quarter Ended September 30, 2006 and 2005**

This report provides a review the financial and operating performance of OJSC Rosneft for the nine months ended September 30, 2006 and 2005 and should be read 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 outcomes; however, they cannot guarantee the achievement of the said results in the future. Rosneft’s actual results may differ materially from those discussed in such forward-looking statements as a result of various factors.

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

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.

For the first nine months of 2006, Rosneft produced 58.464 million tonnes of crude oil (1,566.54 thousand barrels of crude oil per day), an increase of 4.614 million tonnes, or 9%, over the first nine months of 2005 (53.850 million tonnes). Crude oil production for the third quarter of 2006 was 20.353 million tonnes (1,618.28 thousand barrels of crude oil per day), an increase of 1.730 million tonnes, or 9%, over the third quarter of 2005 (18.623 million tonnes). Rosneft sells approximately 70% of this crude oil to customers outside Russia, comprising both sales to CIS countries and exports to 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 16,944 million for the first nine months of 2005 to USD 25,521 million for the first nine months of 2006 and from USD 7,080 million in the third quarter of 2005 to USD 9,165 million in the third quarter of 2006. Adjusted net income (excluding effect of income from divestment of CJSC Sevmorneftegas and minority interest) increased by 2% from USD 2,978 million for the first nine months of 2005 to USD 3,027 million for the first nine months of 2006. Adjusted net income (excluding effect of income from divestment of CJSC Sevmorneftegas and minority interest) decreased from USD 1,268 million in the third quarter of 2005 to USD 1,074 million in the third quarter of 2006.

Rosneft's total revenues and net income have grown both organically and by acquisition. The most significant recent acquisition was the December 2004 purchase 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 70% of Rosneft's crude oil production for the first nine months 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 present 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 or no impact to date on the financial position 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 either sold by the holding company wholesale in international or domestic markets or sold to the Company's marketing subsidiaries for subsequent retail sale in Russia.

Determining market prices for crude oil in the Russian domestic market, is complicated by the significant intragroup turnover within the vertically integrated oil companies which 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, the analysis of individual segments in isolation from the analysis of other activities may present a distorted view of Rosneft's financial and operating performance.

On October 1, 2006 12 subsidiaries were merged with OJSC Rosneft. Seven of them were previously included into the upstream segment and five of them into the downstream segment (see 'Consolidation via Share Swap' below). On consolidation, all of the crude oil production belongs to the holding company OJSC Rosneft. Part of the crude oil produced will be sold abroad and the remaining portion will be processed at its own refineries located in Russia or at refineries owned by third parties. Merged subsidiaries were replaced by the holding company's representation offices and service companies which will provide extraction services to the holding company. The major part of the service companies' revenue will be included into the holding company's expenses. Consolidation will lead to changes in the approach to preparing segment information – the upstream segment will include operating expenses of service production entities and also a part of OJSC NK Rosneft revenue and operating expenses related to oil and gas production.

Call option for OJSC Udmurtneft

In December 2006, the Company finalized its acquisition of a 51% interest in OJSC Udmurtneft (Udmurtneft). Earlier, in April 2006, Rosneft and China Petrochemical Corporation ("Sinopec") signed an option agreement, stating that Rosneft would buy the interest in Udmurtneft if Sinopec were to win the tender for purchasing Udmurtneft from TNK-BP. In June 2006, TNK-BP announced the decision to sell 96.86% shares of Udmurtneft to Sinopec. To manage the activity of Udmurtneft a joint venture was created with 51% and 49% holdings held by the Company and Sinopec respectively. A credit facility for financing the purchase of 96.86% shares of Udmurtneft was provided to the joint venture by Bank of China. To repay this financing the cash flows of Udmurtneft will be used directly, without the recourse to the shareholders' assets. The Company will account for this investment using the equity method.

Udmurtneft is located in the Volga-Ural region and, as of 31 December 2005, had proved crude oil reserves of 551 million barrels (75.32 million tonnes) (as determined by applying the SPE standards). According to publicly available information, it has 23 producing fields and, in 2005, it produced 131 thousand barrels of crude oil per day.

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.

Significant Acquisitions

PSA Sakhalin-1

In July 2006, Rosneft repaid ahead of schedule approximately USD 1.34 billion to ONGC, in respect of the carry arrangement to finance Rosneft's interest in Sakhalin-1. After the repayment the Company accounts for its 20% share using the proportional consolidation method.

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.

OJSC Nefteport 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 tonnes of oil products and serviced over 1,000 vessels. Shipment volumes for the first nine months of 2006 amounted to approximately 3.7 million tonnes.

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 in Russia.

Increased Stakes in Subsidiaries

All-Russian Bank of Regional Development (VBRR)

In July 2006 the Company purchased 25.49% of VBRR for RUB 333 million (USD 12 million at the exchange rate as of the date of settlement), thus increasing its interest in VBRR to 76.47%. Payment was made in cash.

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

In September 2006, a shareholders meeting of VBRR approved an additional share issue of 223 500 shares (10 000 RUB per share at par value) 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 exchange rate as of September 30, 2006. The Company's ownership interest in VBRR will be increased to 94.00%.

Daltransgaz

In February 2006, the Company purchased its 25% pro rata share of an additional issue of shares in OJSC Daltransgaz for RUB 722 million (USD 26 million as of the payment date).

In August 2006, the Company purchased 25% of the additional issue of shares by OJSC Daltransgaz for RUB 525 million (USD 19 million at the exchange rate as of date of transaction), thus maintaining its stake at 25% plus one share.

Spin-off and consolidation

RN-Burenie

In March 2006 the Company set up LLC RN-Burenie following 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) merged into LLC RN-Burenie.

Licenses Won at Auctions

Vankor area licenses

In July 2006, the Company won an auction for a license to develop and produce 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 license was RUB 4,730 million (USD 177 million as of the payment date). Taking into account this acquisition, the total number of licenses at Vankorsky field in Western Siberia is now 14.

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

Other areas

In September 2006, the Company won an action for the license for the development and production of crude oil and gas in Osoveysky prospective oil and gas block in Nenetsky Autonomous Okrug. The total cost of license amounted to RUB 2,250 million (USD 84 million as of the payment date).

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 the license amounted to RUB 1,560 million (USD 58 million as of the auction date). 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 license for the development and production of oil and gas in Danilovsky oil and gas field in Irkutsk region. The total cost of the license amounted to RUB 1,210 million (USD 45 million as of the payment date).

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 RUB 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. Total cost of the license was RUB 7,470 million (USD 269 million as of the payment date).

Consolidation via Share Swap

On October 1, 2006 the following subsidiaries were merged with OJSC Rosneft via exchange of shares at specified ratios, approved by the respective shareholders (“Share Swap”): OJSC Yuganskneftegaz, OJSC Rosneft-Purneftegaz, OJSC Rosneft-Selkupneftegaz, OJSC Severnaya Neft (Northern Oil), OJSC Rosneft-Krasnodarneftegaz, OJSC Rosneft-Stavropolneftegaz, OJSC Rosneft-Sakhalinmorneftegaz, OJSC Rosneft-Komsomolsky Refinery, OJSC Rosneft-Tuapse Refinery, OJSC Rosneft-Arkhangelsknefteproduct, OJSC Rosneft-Nakhodkanefteproduct, OJSC Rosneft-Tuapsenefteproduct (each, a “Merging Subsidiary” and collectively, the “Merging Subsidiaries”). The twelve Merging subsidiaries were excluded from Unified State Register of Legal Entities starting from October 1, 2006. As part of the Share Swap OJSC NK Rosneft transferred its ordinary shares to the minority shareholders of the Merging Subsidiaries in exchange for ordinary and preferred shares owned by them. The shares of each Merging Subsidiary were exchanged at a certain agreed exchange ratio.

In December 2006, the Federal Tax Agency of Russian Federation registered the increase in the Company’s Share Capital resulting from the consolidation of the Merging Subsidiaries. The Company’s Share Capital increased by 1 220 939 458 ordinary shares.

Subsequent events

In October 2006, the Arbitration court passed the judgment to include into the creditors register of OJSC NK Yukos an additional requirement by OJSC NK Rosneft to reimburse RUB 137 billion losses incurred by OJSC Yuganskneftegaz as a result of transfer pricing. In November 2006 additional requirements of RUB 0.8 billion in relation to a credit agreement and RUB 3.9 billion in relation to fines accrued due to default on obligations to OJSC Yuganskneftegaz were included into the creditors register. This amount will be recorded in consolidated financial statements in the period when cash assets are actually received.

In November 2006, Rosneft and Gazprom signed a Strategic Cooperation Agreement. The parties intend to participate jointly in tenders and auctions for subsoil use rights, and in the implementation of joint projects, in particular projects involving the creation of gas-processing and petrochemical facilities in East Siberia and the Far East. When considering issues of participation in joint projects involving geological prospecting and the development of deposits, the parties will be subject to an equal distribution of their participatory shares in such projects.

The strategic partnership agreement has been concluded up until 2015 inclusive, and may be extended for subsequent five-year periods.

In November 2006, the Company made the last coupon payment on and retired its five-year eurobonds amounting to USD 149 million. Thus, the upper level of the interest rate for the long-term loans denominated in USD has decreased to LIBOR plus 0.7%.

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 presented below:

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
KEY OPERATING DATA				
Production data				
Crude oil (thousand barrels per day)	1,618.28	1,480.73	1,566.54	1,442.90
Gas (bcm)	3.35	3.29	10.12	9.41
Crude oil sales and exports (million barrels)				
Crude oil exported outside the CIS	92.32	75.11	267.88	201.74
Crude oil sold in the CIS	12.51	11.41	33.14	35.77
Crude oil sold in Russia	2.34	4.68	5.34	27.72
Gas sales (bcm)	2.41	2.26	6.99	6.68
Petroleum products (million tonnes)				
Total domestic refining output	5.68	5.78	16.89	15.27
Petroleum products exported outside the CIS	3.15	3.56	9.65	9.40
Petroleum products sold in the CIS	0.14	0.08	0.43	0.23
Petroleum products sold in Russia, including those purchased by the Company's marketing subsidiaries				
<i>Total petroleum products sold in Russia</i>	2.39	2.22	7.05	5.92
<i>Petroleum products sales via proprietary and rented retail outlets</i>	0.37	0.27	0.89	0.74
KEY FINANCIAL RATIOS				
EBITDA (USD millions)	2,217	2,325	6,395	5,627
EBITDA margin	24.2%	32.8%	25.1%	33.2%
Adjusted free cash flow before interest (USD millions)	176	641	1 961	1 206
Adjusted net income margin before minority interest	11.7%	17.9%	11.9%	17.6%
Return on average capital employed, annualized	22.4%	30.9%	22.7%	24.2%
Return on average equity, annualized	34.8%	59.3%	34.8%	54.4%
Net debt (USD millions)	11,135	10,944	11,135	10,944
Net debt to capital employed ratio	0.44	0.56	0.44	0.56
Net debt to EBITDA ratio, annualized	1.26	1.18	1.31	1.46
Current ratio	0.84	0.77	0.84	0.77
EBITDA/bbl (USD)	14.89	17.07	14.95	14.28
EBITDA/boe (USD)	13.15	14.94	13.12	12.52
Upstream capital expenditures/bbl (USD)	4.46	2.50	4.38	2.84
Upstream capital expenditures/boe (USD)	3.94	2.19	3.85	2.49
Upstream operating expenses/bbl (USD)	2.92	2.07	2.68	2.24
Upstream operating expenses/boe (USD)	2.58	1.81	2.35	1.97
Adjusted free cash flow before interest/bbl (USD)	1.18	4.71	4.59	3.06
Adjusted free cash flow before interest/boe (USD)	1.04	4.12	4.02	2.68

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

EBITDA/bbl and EBITDA/boe are calculated by dividing EBITDA for a 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 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 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 September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Upstream capital expenditures (USD millions)	664	340	1,874	1,118
Upstream operating expenses (USD millions)	435	282	1,146	884
Barrels of crude oil produced (millions)	148.88	136.23	427.66	393.91
Barrels of oil equivalent produced (millions)	168.62	155.59	487.27	449.34

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

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 selects, 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.

The crude oil that Rosneft exports through the Transneft pipeline system is blended with oil of other producers which 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 from producing areas and 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 September 30, 2006	Three months ended September 30, 2005	Change, %	Nine months ended September 30, 2006	Nine months ended September 30, 2005	Change, %
World market						
	(in USD per barrel)					
Brent	69.49	61.53	13%	66.96	53.54	25%
Urals (average Med+NWE)	65.76	57.20	15%	62.92	49.40	27%
Dubai-Oman (Singapore)	66.49	55.89	19%	63.46	48.70	30%
	(in USD per tonne)					
Fuel oil 3.5% (average Med)	297	258	15%	296	219	35%
Gasoil 0.2% (average Med)	619	570	9%	599	496	21%
Naphta (average Med)	578	508	14%	560	450	24%
Russian market*						
	(in USD per tonne)					
Oil	281	269	4%	272	253	8%
Fuel oil	225	187	20%	216	133	62%
Diesel fuel	610	526	16%	558	474	18%
Low octane gasoline	647	516	25%	567	473	20%
High octane gasoline	809	671	21%	694	608	14%

* Including VAT of 18%

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 unified system of trunk pipelines, and is a monopoly supplier of gas in Russia and the only exporter of gas produced in Russia. Pursuant to the Agreement signed between Rosneft and Gazprom in November 2006, Gazprom will acquire all actual production of natural gas from Rosneft (at the West Siberian fields connected to Gazprom's gas transportation system). 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. Rosneft's average gas sale price was USD 20.89/tcm and USD 19.01/tcm for the first nine months of 2006 and 2005, respectively, and USD 21.58/tcm and USD 17.70 /tcm in the third quarter of 2006 and 2005, respectively.

RUB/USD Exchange Rate Movements and Inflation

The RUB-USD 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 USD, while a substantial portion of its expenses is denominated in RUB. Accordingly, the real appreciation of RUB versus USD negatively affects Rosneft's margins. RUB has appreciated against USD in real terms throughout the periods being analyzed and in nominal terms on average as well. Currently, Rosneft does not use currency hedging instruments.

Whether RUB 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 September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
RUB inflation (CPI)	1.0%	0.6%	7.2%	8.6%
RUB/USD exchange rate at the beginning of the period	27.08	28.67	28.78	27.75
RUB/USD exchange rate at the end of the period	26.78	28.50	26.78	28.50
Average RUB/USD exchange rate during the period	26.81	28.51	27.39	28.15
Nominal RUB appreciation (depreciation)	1.1%	0.6%	7.0%	(2.7)%
Real RUB appreciation (depreciation)	2.1%	1.2%	14.7%	5.7%

Sources: CBR, State Statistics Committee of Russia

Changes in Mineral Production Tax and Export Customs Duty

Mineral production tax and export customs duty accounted for 43% to 52% of Rosneft's total revenues. 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 September 30, 2006	Three months ended September 30, 2005	Change, %	Nine months ended September 30, 2006	Nine months ended September 30, 2005	Change, %
Mineral production tax						
Crude oil (RUB per tonne)	2,443	2,206	11%	2,371	1,825	30%
Natural gas (RUB per thousand cubic meter)	147	135	9%	147	135	9%
Export custom duty (USD per tonne):						
Crude oil	211	139	52%	190	114	67%
Light and medium distilled products	152	105	45%	137	82	67%
Fuel oil	81	57	42%	75	49	53%

Mineral Production Tax

For the first nine months of 2006, the rate of mineral production tax for crude oil increased by 30% compared with the first nine months of 2005, due to an increase in crude oil prices.

In the third quarter of 2006, the rate of mineral production tax for crude oil increased by 11% against the third 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 RUB 147 per tcm.

The rate of mineral production tax for crude oil in 2005 and for the first nine months 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 RUB/USD exchange rate established by the Central Bank of Russia during the fiscal period. The base rate was RUB 419 in 2006.

Mineral production tax was USD 11.54 per barrel of crude oil produced and USD 10.13 per barrel of oil equivalent produced for the first nine months of 2006 and USD 8.57 per barrel and USD 7.52 per barrel of oil equivalent produced for the first nine months of 2005. Mineral production tax was USD 12.22 per barrel of crude oil produced and USD 10.79 per barrel of oil equivalent produced for the third quarter of 2006 and USD 10.23 per barrel and USD 8.95 per barrel of oil equivalent produced for the third quarter 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 USD per barrel of extracted crude oil (expressed in USD 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

Due to specifics of setting export customs duty by the Russian government (time lag of two months) the rate of export customs duty increased by 67% for the nine months of 2006 whereas the average price for Urals Mediterranean rose by 27%.

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.

For the first nine months 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.

For the nine months 2006 Rosneft also transported by railroad approximately 32% of its export sales (24% for the nine months 2005) of crude oil and approximately 75% of its petroleum products sales. The Russian railroad system, or RZD, is a state-owned monopoly provider of railroad 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. Rosneft also has a 20% share in Sakhalin-1 project and proportionally consolidates its operations results. Yuganskneftegaz and Purneftegaz in Western Siberia and Severnaya Neft in Timano-Pechora collectively account for almost 90% of Rosneft's production in 2005 and for the first nine months of 2006.

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

(million tonnes)	Three months ended September 30, 2006	Three months ended September 30, 2005	Change, %	Nine months ended September 30, 2006	Nine months ended September 30, 2005	Change, %
Crude oil production by fully consolidated subsidiaries ⁽¹⁾	20.353	18.623	9%	58.464	53.850	9%
Crude oil production, including the share in production of affiliated enterprises ⁽²⁾	20.523	18.803	9%	58.952	54.352	8%

(1) Crude oil production by subsidiaries includes Rosneft's net share of oil produced under Sakhalin-1 PSA totaling 207 thousand tonnes. Gross amount of oil retained by Rosneft is 287 thousand tonnes, the difference is due to royalty (8%) and the government's share (2,07%), one-off compensation of costs previously incurred by other participants of the consortium, pipeline fill-up and other needs.

(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.

For the first nine months of 2006 Rosneft increased its production of crude oil by 9% to 58.464 million tonnes, compared to 53.850 million tonnes for the first nine months of 2005. This growth was largely attributable to increased production by Yuganskneftegaz and Severnaya Neft. Yuganskneftegaz increased its production from 37.7 million tonnes to 41.4 million tonnes, or by 10%, and Severnaya Neft increased its production from 3.5 million tonnes to 4.2 million tonnes, or by 20%. Also, commercial production of crude oil and gas started at Sakhalin-1 PSA from October 2005 and for the first nine months of 2006 amounted to 1.4 million tonnes of oil equivalent.

In the third quarter of 2006 Rosneft increased its production of crude oil by 9% to 20.353 million tonnes, compared with 18.623 million tonnes in the third 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.

Daily crude oil production for the first nine months of 2006 was 214 thousands tonnes as compared with 197 thousand tonnes for the same period in 2005. Among the factors contributing to an increase in daily oil production was a raise in average well production rates from 13.9 tonnes per day in 2005 to 15 tonnes per day in 2006, in particular for newly drilled wells from 76.6 to 105.4 tonnes per day. For the first nine months of 2006 the Company carried out 3.7 thousand workovers which allowed to additionally extract 6.1 million tonnes of crude oil which was 39% higher than for the first nine months of 2005.

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	Three months ended	Change, %	Nine months ended	Nine months ended	Change, %
	September 30, 2006	September 30, 2005		September 30, 2006	September 30, 2005	
Gas production by subsidiaries	3.35	3.29	2%	10.12	9.41	8%
Gas production, including the share in production of affiliates	3.35	3.29	2%	10.13	9.42	8%

For the first nine months of 2006, gas production increased by 8% to 10.12 bcm. The growth was primarily attributable to the increased production in the fields of Krasnodarneftegaz and Selkupneftegaz (Yamalo-Nenetsky Autonomous Okrug). For the nine months of 2006, the level of associated gas utilization was 57.9% compared to 63.3% in the nine months 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 routing oil produced by it for processing at refineries within the YUKOS group.

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

The following table sets forth Rosneft's petroleum products output during the period being analyzed:

(million tonnes)	Three months ended	Three months ended	Change, %	Nine months ended	Nine months ended	Change, %
	September 30, 2006	September 30, 2005		September 30, 2006	September 30, 2005	
Petroleum products output by Tuapsinskiy, Komsomolskiy, mini-refineries	2.72	2.61	4%	7.92	7.60	4%
Petroleum products output by third party refineries	2.96	3.17	-7%	8.97	7.67	17%
Total output of petroleum products	5.68	5.78	-2%	16.89	15.27	11%

For the first nine months of 2006, Rosneft's output of petroleum products amounted to 16.89 million tonnes, which is 11% more than for the first nine months of 2005. Rosneft's own refineries output increased by 4% from 7.60 million tonnes for the first nine months of 2005 to 7.92 million tonnes for the first nine months of 2006. The increase is due to commissioning new processing units. Depth of refining by Komsomolskiy Refinery increased from 60.2 % for the first nine months of 2005 to 60.6% for the first nine months of 2006 and by Tuapsinskiy Refinery from 55.8% for the first nine months of 2005 to 56.5% for the first nine months of 2006.

The output of petroleum products at third party refineries (mainly those within the YUKOS group) increased by 17% from 7.67 million tonnes for the first nine months of 2005 to 8.97 million tonnes for the first

nine months of 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 third quarter of 2006, Rosneft's output of petroleum products amounted to 5.68 million tonnes, which is 2% less than in the third quarter of 2005. Rosneft's own refineries processing increased by 4% as compared with the corresponding period of 2005. The output of petroleum products at third party refineries decreased by 7% and amounted to 2.96 million tonnes.

Sales Revenues

Tables below set forth the analysis of sales of crude oil and petroleum products for the first nine months of 2005 and 2006, as well as in the third quarter of 2005 and 2006:

Analysis of Sales Revenues

Revenue	Three months ended September 30, 2006	Three months ended September 30, 2005	Change, %	Nine months ended September 30, 2006	Nine months ended September 30, 2005	Change, %
(USD millions)						
Crude oil						
Crude oil – export & CIS sales	6,436	4,567	41 %	17,820	10,766	66 %
Europe	4,465	3,434	30 %	12,809	8,206	56 %
Asia	1,458	737	98 %	3,758	1,492	152 %
CIS	513	396	30 %	1,253	1,068	17 %
Crude oil – domestic	92	141	(35)%	171	575	(70)%
Gas	52	40	30 %	146	127	15 %
Oil and gas sales	6,580	4,748	39%	18,137	11,468	58%
Petroleum products						
Petroleum products – export and CIS sales	1,329	1,341	(1)%	4,086	3,158	29 %
Europe	812	949	(14)%	2,402	2,181	10 %
Asia	458	371	23 %	1,539	936	64 %
CIS	59	21	181 %	145	41	254 %
Petroleum products – domestic	1,114	885	26 %	2,983	2,048	46 %
Wholesale	853	756	13 %	2,442	1,693	44 %
Retail	261	129	102 %	541	355	52 %
Petroleum products sales	2,443	2,226	10%	7,069	5,206	36%
Support services and other revenues	142	106	34 %	315	270	17 %
Total sales	9,165	7,080	29%	25,521	16,944	51%

Breakdown of revenue by products and markets as a percentage of total revenue

Revenue (Mln USD)	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Crude oil				
Crude oil – export	70.2%	64.5%	69.8%	63.5%
Europe	48.7%	48.5%	50.2%	48.4%
Asia	15.9%	10.4%	14.7%	8.8%
CIS	5.6%	5.6%	4.9%	6.3%
Crude oil – domestic	1.0%	2.0%	0.7%	3.4%
Gas	0.6%	0.6%	0.6%	0.7%
Oil and gas sales	71.8%	67.1%	71.1%	67.6%
Petroleum products				
Petroleum products – export	14.5%	18.9%	16.0%	18.6%
Europe	8.9%	13.4%	9.4%	12.9%
Asia	5.0%	5.2%	6.0%	5.5%
CIS	0.6%	0.3%	0.6%	0.2%
Petroleum products – domestic	12.1%	12.5%	11.7%	12.1%
Wholesale	9.3%	10.7%	9.6%	10.0%
Retail	2.8%	1.8%	2.1%	2.1%
Petroleum products sales and oil refining services	26.6%	31.4%	27.7%	30.7%
Support services and other revenues	1.6%	1.5%	1.2%	1.7%
Total sales	100.0%	100.0%	100.0%	100.0%

Analysis of Crude Oil and Petroleum Product Sales Volumes

Sales Volumes	Three months ended September 30, 2006	Three months ended September 30, 2005	Change, %	Nine months ended September 30, 2006	Nine months ended September 30, 2005	Change, %
Crude oil	(mln. bbl)					
Crude oil – export & CIS sales	104.83	86.52	21 %	301.02	237.51	27 %
Europe	70.67	62.39	13 %	210.31	173.07	22 %
Asia	21.65	12.72	70 %	57.57	28.67	101 %
CIS	12.51	11.41	10 %	33.14	35.77	(7)%
Crude oil – domestic	2.34	4.68	(50)%	5.34	27.72	(81)%
Crude oil	(mln. tonnes)					
Crude oil – export & CIS sales	14.33	11.83	21 %	41.15	32.47	27 %
Europe	9.66	8.53	13 %	28.75	23.66	22 %
Asia	2.96	1.74	70 %	7.87	3.92	101 %
CIS	1.71	1.56	10 %	4.53	4.89	(7)%
Crude oil – domestic	0.32	0.64	(50)%	0.73	3.79	(81)%
Total crude oil sales	14.65	12.47	17%	41.88	36.26	15%
Petroleum products	(mln. tonnes)					
Petroleum products – export and CIS sales	3.29	3.64	(10)%	10.08	9.63	5 %
Europe	2.03	2.45	(17)%	5.85	6.35	(8)%
Asia	1.12	1.11	1 %	3.80	3.05	25 %
CIS	0.14	0.08	75 %	0.43	0.23	87 %
Petroleum products – domestic	2.39	2.22	8 %	7.05	5.92	19 %
Wholesale	2.02	1.95	4 %	6.16	5.18	19 %
Retail	0.37	0.27	37 %	0.89	0.74	20 %
Total petroleum product sales	5.68	5.86	(3)%	17.13	15.55	10%
Total crude oil and petroleum product sales	20.33	18.33	11%	59.01	51.81	14%
	(bln.cub.m.)					
Gas	2.41	2.26	7 %	6.99	6.68	5%

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.

Crude Oil and Petroleum Product Sales by markets as a percentage of total sales volumes

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Crude oil	(% of total crude oil sales volumes)			
Crude oil – export & CIS sales	97.8%	94.9%	98.3%	89.5%
Europe	65.9%	68.4%	68.7%	65.2%
Asia	20.2%	14.0%	18.8%	10.8%
CIS	11.7%	12.5%	10.8%	13.5%
Crude oil – domestic	2.2%	5.1%	1.7%	10.5%
Total crude oil sales	100.0%	100.0%	100.0%	100.0%
Petroleum products	(% of total petroleum products sales volumes)			
Petroleum products – export and CIS sales	57.9%	62.1%	58.8%	61.9%
Europe	35.7%	41.8%	34.1%	40.8%
Asia	19.7%	18.9%	22.2%	19.6%
CIS	2.5%	1.4%	2.5%	1.5%
Petroleum products – domestic	42.1%	37.9%	41.2%	38.1%
Wholesale	35.6%	33.3%	36.0%	33.3%
Retail	6.5%	4.6%	5.2%	4.8%
Total petroleum product sales	100.0%	100.0%	100.0%	100.0%

Average Crude Oil and Petroleum Products Sales Prices achieved by Rosneft

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

- Seasonal and other production fluctuations;
- Different conditions of sales and supplies versus those cited in mass media;
- Different 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 September 30, 2006		Three months ended September 30, 2005		Nine months ended September 30, 2006		Nine months ended September 30, 2005	
	(USD/ bbl)	(USD/ tonne)	(USD/ bbl)	(USD/ tonne)	(USD/ bbl)	(USD/ tonne)	(USD/ bbl)	(USD/ tonne)
Average export & CIS prices								
Crude oil	61.40	449.13	52.77	386.05	59.20	433.05	45.33	331.57
Europe	63.19	462.22	55.03	402.58	60.91	445.53	47.41	346.83
Asia	67.34	492.57	57.89	423.56	65.28	477.51	52.04	380.61
CIS	41.01	300.00	34.71	253.85	37.81	276.60	29.86	218.40
Petroleum products		403.95		368.41		405.36		327.93
Europe		400.00		387.35		410.60		343.46
Asia		408.93		334.23		405.00		306.89
CIS		421.43		262.50		337.21		178.26
Average domestic price								
Crude oil	39.32	287.50	30.13	220.31	32.02	234.25	20.74	151.72
Gas (USD/thousand cubic meter)		21.58		17.70		20.89		19.01
Petroleum products		466.11		398.65		423.12		345.95
Wholesale		422.28		387.69		396.43		326.83
Retail		705.41		477.78		607.87		479.73

Revenues were USD 25,521 million in the first nine months of 2006, a 51% increase over the first nine months of 2005 (USD 16,944 million). Revenues from the sale of crude oil and gas increased by 58% and revenues from the sale of petroleum products by 36%, for the first nine months of 2006 compared to the first nine months of 2005. The growth in revenues was due to increased prices and increased sales volumes of crude oil and petroleum products.

Revenues were USD 9,165 million in the third quarter of 2006, a 29% increase over the third quarter of 2005 (USD 7,080 million). Revenues from the sale of oil and gas grew by 39% and revenues from sale of petroleum products by 10% in the third quarter of 2006 compared to the third quarter of 2005. The growth in revenues resulted from increased prices and changes in sales volumes of crude oil and petroleum products.

Crude Oil Export Sales

For the first nine months of 2006, non-CIS export oil sales were USD 16,567 million compared to USD 9,698 million for the first nine months of 2005, an increase of 71%. The growth resulted from a 29% increase in average prices, which increased revenues by USD 3,690 million, and a 33% increase in sales volumes, which had a positive impact on revenues of USD 3,179 million. The price increases were attributable to the general growth of world prices; in particular, the average price for Urals Mediterranean rose by 27%. Sales volumes grew, mainly in respect of sales to Asia primarily due to an increase in the annual quota for sales to China

National United Petroleum Corporation (CNPC) 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 non-CIS export oil sales were USD 5,923 million for the third quarter of 2006 compared to USD 4,171 million for the third quarter of 2005, an increase of 42%. The growth resulted from a 16% increase in prices, which increased revenues by USD 798 million and a 23% increase in sales volumes, which had a positive impact on revenues of USD 954 million. The price increases were attributable to the general growth of world prices; in particular, the price for Urals Mediterranean rose by 15% in the period being analyzed.

Crude Oil CIS Sales

For the first nine months of 2006, revenues from the sale of crude oil to CIS destinations were USD 1,253 million, an increase of 17%, compared to USD 1,068 million for the first nine months of 2005. A 27% increase in average prices which would have increased revenues by USD 264 millions, was offset by a 7% decrease in sales volumes, which had a negative impact on revenues of USD 79 million. The growth in volumes sold to Belarus was offset by a more significant reduction of volumes sold to Ukraine, a less profitable CIS market.

In the third quarter of 2006, revenues from the sale of crude oil in the CIS were USD 513 million compared to USD 396 million in the third quarter of 2005, an increase of 30%. This resulted from an 18% increase in prices, which had a positive impact on revenues of USD 79 million, and a 10% increase in sales volumes, which had a positive impact of USD 38 million. The growth in volumes was due to increased sales to Belarus and Kazakhstan which are the preferred markets for Rosneft due to the absence of export customs duty.

Crude Oil Domestic Sales

The volume of crude oil sold in Russia decreased significantly for the first nine months of 2006 due to low profitability of such sales. For the first nine months of 2006, crude oil domestic sales decreased by USD 404 million to USD 171 million. This resulted from an 81% decrease in sales volume which contributed USD 464 million of the decrease in revenues, which was partially offset by a 54% increase in average prices which had a positive impact on revenues of USD 60 million. The decline in volumes resulted from the allocation of more crude oil to export sales and refining to achieve maximum netbacks.

In the third quarter of 2006, revenues from domestic sales were USD 92 million, a decrease of USD 49 million compared to the third quarter of 2005. This resulted from a 50% decrease in sales volumes, which would have decreased revenues by USD 71 million, but this was partially offset by a 31% average price growth, which had a positive impact of USD 22 million.

Petroleum Products Export and CIS Sales

Revenues from the export of petroleum products were USD 4,086 million for the first nine months of 2006 compared to USD 3,158 million for the first nine months of 2005, an increase of 29%. The growth of petroleum products sales revenue was attributable to a 24% increase in prices, which increased revenues by USD 780 million, and a 5% growth in sales volumes, which had a positive impact on revenues of USD 148 million. The growth in average prices was due to the overall increase in world prices; in particular, the average price for fuel oil Med grew by 35%. The growth in volumes was attributed mainly to CIS and Asia.

In the third quarter of 2006, revenues from export sales of petroleum products were USD 1,329 million and almost did not change as compared with USD 1,341 million in the third quarter of 2005. The decline in revenues is attributable to a 10% decrease in sales volumes, which had a negative impact on revenues of USD 129 million, which was partially offset by a 10% average price growth which increased revenues by USD 117 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 15%.

Domestic Sales of Petroleum Products

For the first nine months of 2006, revenue from the sale of petroleum products on the domestic market grew by 46% to USD 2,983 million compared to USD 2,048 million for the first nine months of 2005. The growth of petroleum products domestic revenue was attributable to a 22% average price increase, which increased revenues by USD 544 million and a 19% increase in sales volume, which had a positive impact on revenues of USD 391 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 third quarter of 2006, revenue from the sale of petroleum products at the domestic market was USD 1,114 million compared to USD 885 million in the third quarter of 2005, an increase of 26%. The growth of petroleum products domestic revenue was attributable to a 17% price increase, which increased revenues by USD 161 million, and an 8% increase in sales volume, which had a positive impact on revenues of USD 68 million.

Gas Sales

For the first nine months of 2006, revenue from the sale of gas was USD 146 million compared to USD 127 million for the first nine months of 2005, an increase of 15%. The growth in gas sales revenue was attributable to a 10% increase in prices, which increased revenues by USD 13 million and a 5% growth in sales volumes which increased revenues by USD 6 million.

In the third quarter of 2006, revenue from the sale of gas was USD 52 million compared to USD 40 million in the third quarter of 2005, an increase of 30%. The growth in gas sales revenue was attributable to a 22% increase in prices, which increased revenues by USD 9 million and a 7% growth in sales volumes which increased revenues by USD 3 million.

Support Services and Other Revenues

For the first nine months of 2006, support services and other revenues were USD 315 million which is 17% higher than for the first nine months 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 third quarter of 2006, support services and other revenues were USD 142 million which is 34% higher than in the third quarter of 2005.

Costs and Expenses and Net Income

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

(USD million)	Three months ended September 30, 2006	Three months ended September 30, 2005	Change, %	Nine months ended September 30, 2006	Nine months ended September 30, 2005	Change, %
Production and operating expenses	541	325	66 %	1,481	1,093	35 %
Cost of purchased oil, petroleum products and refining costs	459	138	233 %	1,561	443	252 %
General and administrative expenses	209	214	(2)%	557	400	39 %
Pipeline tariffs and transportation costs	902	746	21 %	2,359	1,642	44 %
Exploration expenses	46	53	(13)%	144	117	23 %
Depreciation, depletion and amortization	444	355	25 %	1,236	1,053	17 %
Accretion expense ⁽¹⁾	9	9	0 %	25	26	(4)%
Taxes other than income tax	1,844	1,506	22 %	5,284	3,706	43 %
Export customs duty	2,947	1,773	66 %	7,740	3,916	98 %
Total operating expenses	7,401	5,119	45%	20,387	12,396	64%

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

For the first nine months of 2006, total operating expenses were USD 20,387 million, which is 64% higher than USD 12,396 million for the first nine months of 2005. 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 third quarter of 2006, costs and expenses were USD 7,401 million, a 45% increase compared to the third quarter of 2005.

Production and Operating Expenses

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

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.

Of the total production and operating expenses, the upstream and downstream segments accounted for USD 1,162 million and USD 216 million respectively for the first nine months of 2006 and USD 884 million and USD 169 million respectively for the first nine months of 2005. Starting from the third quarter of 2006 upstream production and operating expenses include costs associated with sale of inventories to construction contractors. For the first nine months of 2006, oil and gas related production and operating expenses amounted to USD 1,146 million.

For the first nine months of 2006, production and operating expenses increased by USD 388 million compared to the first nine months of 2005, or by 35%. 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. Also starting from the third quarter of 2006 20% of Sakhalin-1 PSA expenses in the total amount of USD 18 million were included into the Company's financial statements.

In the third quarter of 2006, production and operating costs were USD 541 million compared to USD 325 million in the third quarter of 2005, an increase of 66%. The main contributors (excluding ruble

appreciation) were higher production volumes, an increase in staff and employees salaries and an increase in the cost of materials used in the downstream segment.

For the first nine months of 2006 and 2005, upstream operating expenses were USD 2.68 and USD 2.24 per barrel of crude oil produced and USD 2.35 and USD 1.97 per barrel of oil equivalent produced, respectively. For the first nine months of 2006 operating production expenses excluding Sakhalin-1 PSA expenses were USD 2.65 per barrel of crude oil produced and USD 2.32 per barrel of oil equivalent produced, respectively.

In the third quarter of 2006 and 2005, upstream operating expenses were USD 2.92 and USD 2.07 per barrel of crude oil produced and USD 2.58 and USD 1.81 per barrel of oil equivalent produced, respectively. For the third quarter of 2006 operating production expenses excluding Sakhalin-1 PSA expenses were USD 2.81 per barrel of crude oil produced and USD 2.48 per barrel of oil equivalent produced, respectively.

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

Cost of Purchased Oil, Petroleum Products and Refining Costs

Cost of purchased oil, petroleum products and refining costs 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 September 30, 2006	Three months ended September 30, 2005	Change, %	Nine months ended September 30, 2006	Nine months ended September 30, 2005	Change, %
Refining fees paid to third party refineries (USD millions)	122	76	61 %	368	200	84 %
Rosneft crude oil throughput at third party refineries (millions of tonnes)	3.14	3.24	(3)%	9.50	8.17	16 %
Refining fees per tonne (USD)	38.91	23.61	65 %	38.74	24.54	58 %
Cost of procurement of petroleum products from third parties by the downstream segment ⁽¹⁾ (USD millions)	121	62	95 %	353	242	46 %
Procurement of petroleum products from third parties by the downstream segment ⁽¹⁾ (millions of tonnes)	0.14	0.22	(36)%	0.57	0.61	(7)%

(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 for the first nine months of 2006 increased by 84%, which is explained by a 16% increase in the volumes of refining whereas the processing cost per tonne at third parties' refineries increased by 58% 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.

For the first nine months of 2006, the cost of purchased petroleum products was USD 353 million, a 46% increase compared to the first nine months of 2005 (USD 242 million). The increase is mainly attributable to the growth of domestic purchase prices of oil products despite a minor decrease in purchased volumes.

For the first nine months of 2006, Rosneft purchased almost all crude oil (approximately 1 million tonnes) produced by the Sakhalin-1 PSA for USD 220 million. Approximately 0.63 million tonnes of crude oil were supplied for refining to the Company's refinery in Komsomolsk-on-Amur, and the rest was exported to Asia. Starting from September 2006, the Company no longer purchases oil from the Consortium since the parties to the PSA commenced exports via the Consortium's own terminal in De-Kastri which started operations in the fourth quarter of 2006.

In addition, Rosneft, via a joint venture established together with Shell, is a member to CPC (Caspian Pipeline Consortium) and purchases 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 1.3 million tonnes for the first nine months of 2006 (USD 620 million). There were no purchases of such crude oil for the first nine months of 2005 as Rosneft did not need to meet a quota at that time.

General and Administrative Expenses

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

General and administrative expenses for the first nine months of 2006 increased to USD 557 million compared to USD 400 million, a 39% increase compared to the first nine months of 2005. This increase was mainly due to following circumstances: legal, banking, consultancy, valuation, audit and other professional services were USD 99 million for the first nine months of 2006 versus USD 55 million in 2005; salaries, bonuses and social benefits were USD 217 million for the first nine months of 2006 versus USD 157 million for the same period 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 39 million in the first nine months of 2006.

In the third quarter of 2006, general and administrative expenses were USD 209 million, 2% less than in the third quarter of 2005.

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, railroad and river tariffs, handling, port fees and customs costs and demurrage.

Pipeline tariffs and transportation costs increased to USD 2,359 million for the first nine months of 2006 from USD 1,642 million for the first nine months of 2005, i.e. by 44% due to an increase in the volume of transported oil (e.g. non-CIS export crude oil volumes increased by 33%) and in the tariffs of natural monopolies.

For the first nine months of 2006, Rosneft transported 17 million tonnes (124 million barrels) of crude oil via Transneft to refineries and approximately 36.9 million tonnes or 270 million barrels for export sales via Transneft and CPC. For the first nine months of 2005 Rosneft transported 16 million tonnes or 117 million barrels of crude oil via Transneft to refineries and approximately 30.1 million tonnes or 220 million barrels for export sales via Transneft and CPC. Domestic tariffs increased by 19% and export tariffs by 21%.

Also, for the first nine months of 2006, Rosneft crude production transported by railroad was approximately 4.4 million tonnes (32 million barrels) to refineries and approximately 12.7 million tonnes or 93 million barrels for export sales compared to 4.9 million tonnes (36 million barrels) and 7.6 million tonnes or 55 million barrels respectively during the first nine months of 2005.

For the first nine months of 2006, the Company transported 3.1 million tonnes petroleum products, including 2.0 million tonnes by railroad, 0.1 – via pipelines and 1.0 million using mixed transportation means.

For the first nine months of 2005, the Company transported 2.8 million tonnes petroleum products, including 1.6 million tonnes by railroad, 0.2 – via pipelines and 1.0 million using mixed transportation means.

Domestic railroad tariffs increased by 17% and export tariffs by 6%. The main driver of domestic railroad tariffs' growth was the overall increase in RZD tariffs and the curtailment 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" above). A discount for supplies to China was granted by RZD provided Rosneft transports the minimum annual volumes agreed in advance.

In the third quarter of 2006, pipeline tariffs and transportation costs increased to USD 902 million compared to USD 746 million in the third quarter of 2005, which represents a 21% increase due to reasons described above.

For the third quarter of 2006, Rosneft transported 6 million tonnes (44 million barrels) of crude oil via Transneft to refineries and about 13.2 million tonnes or 97 million barrels for export sales via Transneft and

CPC. For the third quarter of 2005 Rosneft transported 6.1 million tonnes (45 million barrels) of crude oil via Transneft to refineries and about 10.6 million tonnes or 78 million barrels for export sales via Transneft and CPC.

Also, for the third quarter of 2006, Rosneft crude production transported by railroad was approximately 0.8 million tonnes (6 million barrels) to refineries and about 4.7 million tonnes or 34 million barrels for export sales as compared with 1.3 million tonnes (10 million barrels) and 3.5 million tonnes or 26 million barrels respectively for the third quarter of 2005.

For the third quarter of 2006, the Company transported 0.6 million tonnes petroleum products, including 0.3 million tonnes by railroad and 0.3 million using mixed transportation means.

For the third quarter of 2005, the Company transported 1.1 million tonnes petroleum products, including 0.6 million tonnes by railroad, 0.1 – via pipelines and 0.4 million using mixed transportation means.

Depreciation, Depletion and Amortization

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

For the first nine months of 2006, depreciation, depletion and amortization was USD 1,236 million compared to USD 1,053 million for the first nine months of 2005. The 17% increase was due to the following:

- significant capital expenditures which resulted in increased balance sheet value of fixed assets in 2006 as compared to 2005.
- increase in oil production and corresponding increase in depletion rates for oil and gas properties from 6.9% for the first nine months of 2005 to 7.8% for the first nine months 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 throughout the period being analyzed, mainly as a result of 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 September 30, 2006	Three months ended September 30, 2005	Change, %	Nine months ended September 30, 2006	Nine months ended September 30, 2005	Change, %
Mineral production tax	1,819	1,393	31 %	4,935	3,377	46 %
Excise tax	40	50	(20)%	127	139	(9)%
Social security	17	31	(45)%	103	90	14 %
Property tax	43	21	105 %	73	62	18 %
Land tax	2	3	(33)%	6	10	(40)%
Other taxes and payments	(77)	8	(1063)%	40	28	43 %
Taxes other than income tax	1,844	1,506	22%	5,284	3,706	43%

For the first nine months of 2006, taxes other than income tax increased by 43% to USD 5,284 million compared to USD 3,706 million for the first nine months of 2005. The growth in taxes resulted mainly from an increase in mineral production tax of 46% (or by USD 1,558 million) caused by a 9% increase in crude oil production and a 30% increase in the tax rate.

In the third quarter of 2006, taxes other than income tax increased by 22% to USD 1,844 million compared to USD 1,506 million in the third quarter of 2005. The growth in taxes resulted mainly from an increase in mineral production tax of 31% (or USD 426 million), caused by a 11% increase in tax rate and a 9% increase in oil production. Gain on other taxes and payments resulted from adjusting tax liabilities of OJSC Yuganskneftegaz due to the final amount of liabilities agreed with tax authorities being lower than the estimate made for the purposes of U.S. GAAP consolidated accounts earlier.

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” above. 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 September 30, 2006	Three months ended September 30, 2005	Change, %	Nine months ended September 30, 2006	Nine months ended September 30, 2005	Change, %
Export duty for crude oil	2,586	1,477	75%	6,726	3,325	102%
Export duty for refined products	361	296	22%	1,014	591	72%
Total export customs duty	2,947	1,773	66%	7,740	3,916	98%

Export customs duties were USD 7,740 million for the first nine months of 2006 compared to USD 3,916 million for the first nine months of 2005, i.e. an almost twofold growth. The increase resulted from a 27% increase in the volumes of crude oil exported and a 5% increase in petroleum products exported, and an increase in tariffs of export customs duties in the range of 53-67% depending on the kind of hydrocarbons.

Export customs duties were USD 2,947 million in the third quarter of 2006 compared to USD 1,773 million in the third quarter of 2005. The 66% increase resulted from factors described above.

Exploration Expenses

Exploration expenses mainly represent expenses relating to exploratory drilling, seismic, and other geological and geophysical costs. Generally, 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 23% for the first nine months of 2006 to USD 144 million compared to USD 117 million for the first nine months of 2005. The increase was mainly due to an increase in seismic, geological and geophysical works in Yuganskneftegaz, Vankor fields, Kazakhstan.

In the third quarter of 2006, exploration expenses decreased by 13% to USD 46 million, compared to USD 53 million in the third quarter of 2005.

Interest Expense

Interest expense decreased by 2% to USD 563 million for the first nine months of 2006 compared to USD 576 million for the first nine months 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 USD 5,730 million as of 31 December 2005 and decreasing interest rates to LIBOR plus 0.65% (previously LIBOR plus 1.8-2.2%) for loans totaling USD 3,177 million as of 31 December 2005. For the first nine months 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 USD 1,397 million.

In the third quarter of 2006, interest expense increased by 3% to USD 190 million compared to USD 185 million in the third quarter of 2005, due to increase in loans and borrowings.

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

The Company disposes of property, plant and equipment from time to time. For the first nine months of 2006 losses from property, plant and equipment disposition were USD 25 million compared to USD 23 million for the first nine months 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

For the first nine months of 2006, Rosneft's foreign exchange loss was USD 316 million compared to a gain of USD 145 million for the first nine months of 2005. The loss resulted from the impact of the appreciation of the ruble against the U.S. dollars for the first nine months of 2006 compared to its depreciation for the first nine months 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 Yuganskneftegaz current and deferred tax liabilities whereby accounts receivable are denominated in U.S. dollars.

In the third quarter of 2006, foreign exchange loss of Rosneft was USD 39 million compared to a foreign exchange loss of USD 14 million in the third quarter of 2005. The loss of the third 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 U.S. 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 September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Effective income tax rate for Rosneft per U.S. GAAP	29%	26%	29%	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 determined in accordance with the Russian Tax Code. 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.

The most significant factor influencing the effective income tax rate is foreign exchange loss in U.S. GAAP financial statements which is not taxable under statutory tax rules. Moreover, foreign exchange gain per Russian accounting standards is taxable but is eliminated in U.S. GAAP financial statements. There are also certain expenses incurred by the Company not deductible for tax purposes, such as social and charitable expenses, and expenses only deductible up to some limit, as well as certain expenses accrued in accordance with U.S. GAAP.

Income tax expense was USD 1,264 million for the first nine months of 2006 compared to USD 1,393 million for the first nine months of 2005. In particular, the current income tax expense decreased from USD 1,455 million to USD 1,353 million, while deferred tax income increased from USD 62 million to USD 89 million. The current income tax expense decreased due to the fact that income tax in the first nine months of 2005 included a 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 97 million for the first nine months of 2006 compared to USD 374 million for the first nine months of 2005. The effect of the divestment of the 50% interest in Sevmorneftegaz described above on the minority interest was USD 167 million. Additional influence on minority interest was a decrease in net income of Yuganskneftegaz for the first nine months of 2006 due to foreign exchange losses on current and deferred tax liabilities.

In the third quarter of 2006, minority interest in Rosneft subsidiaries' earnings was USD 23 million compared to USD 60 million in the third quarter of 2005. The decrease was due to the reasons explained above.

Adjusted Net Income

As a result of the factors discussed above, net income before minority interest adjusted for proceeds received from the sale of Sevmorneftegaz increased by 2% for the first nine months of 2006 compared to USD 2,978 million for the first nine months of 2005 and decreased by 15% in the third quarter of 2006 compared to USD 1,268 million the third quarter of 2005. As a percentage of total revenues, net income was 12% and 18% for the first nine months of 2006 and 2005 respectively.

Liquidity and Capital Resources

Cash Flows

The principal items of the statement of cash flows for the third quarter and for the first nine months of 2006 and 2005 are as follows:

(USD million)	Three months ended September 30, 2006	Three months ended September 30, 2005	Change, %	Nine months ended September 30, 2006	Nine months ended September 30, 2005	Change, %
Net cash provided by operating activities	737	818	(10)%	3,560	1,985	79%
Net cash used in investing activities	(2,350)	(593)	296 %	(5, 255)	(1,534)	243%
Net cash provided by / (used in) financing activities	1,433	(318)	551 %	1,490	(969)	254%

Net Cash Provided by Operating Activities

Net cash provided by operating activities was USD 3,560 million and USD 1,985 million for the first nine months of 2006 and 2005 respectively. The operating cash flows before changes in operating assets and liabilities net of acquisitions were USD 4,460 million compared to USD 3,644 million for the first nine months of 2006 and 2005 respectively, this reflected mainly the effect of the sale of Sevmorneftegaz of USD 823 million in the first half of 2005.

Increase in operating assets and liabilities net of acquisitions amounted to USD 900 million for the nine months ended September 30, 2006, which resulted mainly from increases in accounts receivable (due to an increase in sales volumes and prices) and increase in inventories.

Increase in accounts receivable as of September 30, 2006 compared to the beginning of the year is due to:

- increase in input VAT of USD 508 million, which was mainly caused by establishing new legal entities in the process of share swap, delay in September export VAT reimbursement (actual reimbursement was received in October 2006) and VAT recalculation on export sales to reflect changes in exchange rates;
- increase in banking loans to customers of USD 251 million, issued by VBRR and Dalnevostochny Bank;
- Increase in trade accounts receivable totaling USD 160 million. This change was mainly due to an increase in share of crude oil sales to China, an increase in USD prices and RUB appreciation.

Increase in operating assets and liabilities net of acquisitions was USD 1,659 million for the first nine months of 2005 which resulted mainly from increases in accounts receivable, sales and export VAT, combined with a reduction in accounts payable and accrued liabilities. This increase was 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 5,225 million for the first nine months of 2006 compared to USD 1,534 million for the first nine months of 2005. The increase is principally due to higher capital expenditures amounting to USD 2,131 million (see the details below), repayment of Sakhalin-1 financing, acquisition of licenses, net purchases of short-term investments and the acquisition of YUKOS debt from a consortium of Western banks in the amount of USD 483 million, of which USD 463 million was included in the cash flow statement for 2006.

Net cash used in investing activities in the third quarter of 2006 was USD 2,350 million compared to USD 593 million in the third quarter of 2005. The change was mainly due to repayment of Sakhalin-1 financing,

acquisition of licenses, increase in capital expenditures to USD 728 million and acquisition of YUKOS' debts from a consortium of Western banks.

Net Cash Provided by / (Used in) Financing Activities

Net cash provided by financing activities was USD 1,490 million for the first nine months of 2006 compared to USD 969 million used for the first nine months of 2005, primarily due to the USD 2 124 million of proceeds from the share issue completed as part of the Company's IPO.

Net cash provided by financing activities amounted to USD 1,433 million in the third quarter of 2006 compared to USD 318 million used in the third quarter of 2005. The change was due to the factors described above.

Capital Expenditures and Acquisitions

Rosneft's total capital expenditures by types of activities for the first nine months of 2006 and 2005, and for the third quarter of 2006 and 2005 were as follows:

(USD million)	Three months ended September 30, 2006	Three months ended September 30, 2005	Change, %	Nine months ended September 30, 2006	Nine months ended September 30, 2005	Change, %
Upstream	664	340	95 %	1, 874	1,118	68%
Downstream	35	53	(34)%	148	141	5%
Other activities	29	4	625 %	109	33	230%
Total capital expenditures	728	397	83%	2, 131	1, 292	65%

Rosneft's total capital expenditures increased by 65% (or by USD 839 million) to USD 2,131 million for the first nine months of 2006 compared to USD 1,292 million for the same period of 2005.

The growth of capital expenditures for the first nine months of 2006 was driven primarily by the upstream segment where capital expenditures increased by 68% (or by USD 756 millions). This growth was mainly attributable to investments in Yuganskneftegaz and the Vankor fields.

Capital expenditures in the downstream sector were USD 148 million, an increase of 5% in comparison with USD 141 million for the first nine months of 2005.

Capital expenditures in other activities were USD 109 million for the first nine months of 2006 compared to USD 33 million for 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. For the first nine months of 2006 Rosneft spent USD 19.5 million to purchase OJSC Nefteport, increased its shareholding in Rosneft-Tuapsenefteprodukt (USD 100 million) and VBRR (USD 12 million) and paid USD 875 million for new licenses to develop oil and gas fields in East Siberia. During the first nine months of 2005 the Company increased its interest in Rosneft-Krasnodarneftegaz (USD 110 million) and Selkupneftegaz (USD 20 million).

Debt Obligations

Rosneft's total loans and borrowings decreased marginally from USD 12,203 million as of December 31, 2005 to USD 12,126 million as of September 30, 2006. As at December 31, 2005 and June 30, 2006, 85.5% and 81.5% of Rosneft's borrowings were secured against crude oil export contracts. As of September 30, 2006 and as of December 31, 2005 pledged oil export as a percentage of total crude oil export sales was 27.2% and 44.8% respectively.

Rosneft's long-term borrowings (excluding current portion of long-term debt) decreased from USD 8,198 million at December 31, 2005 to USD 7,998 million at September 30, 2006. The rates of interest on the Company's long-term bank loans denominated in USD ranged 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 September 30, 2006 and as of December 31, 2005, respectively.

Rosneft's short-term borrowings (including the current portion of long-term debt) increased from USD 4,005 million at December 31, 2005 to USD 4,128 million at September 30, 2006. The rates of interest on

the Company's short-term loans denominated in USD were from LIBOR plus 2% to LIBOR plus 3.02% p.a. The RUB denominated loans generally bear an annual interest rate ranging from 2.25% to 7% p.a.

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

	<u>(USD million)</u>
Up to December 31, 2006	679
2007	2,301
2008	2,596
2009	2,437
2010	2,100
2011 and after	246
Total long-term debt	<u>10,359</u>

Rosneft's plan for the remainder of 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 September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
KEY FINANCIAL RATIOS				
EBITDA (USD millions)	2,217	2,325	6,395	5,627
EBITDA margin	24.2%	32.8%	25.1%	33.2%
Adjusted free cash flow before interest (USD millions)	176	641	1 961	1 206
Adjusted net income margin before minority interest	11.7%	17.9%	11.9%	17.6%
Return on average capital employed (ROACE), annualized	22.4%	30.9%	22.7%	24.2%
Return on average equity (ROAE), annualized	34.8%	59.3%	34.8%	54.4%
Net debt (USD millions)	11,135	10,944	11,135	10,944
Net debt to capital employed ratio	0.44	0.56	0.44	0.56
Net debt to EBITDA ratio, annualized	1.26	1.18	1.31	1.46
Current ratio	0.84	0.77	0.84	0.77

Calculation of Adjusted Free Cash Flow before Interest

(USD millions)	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Net cash provided by operating activities	737	818	3,560	1,985
Capital expenditures	(728)	(397)	(2,131)	(1,292)
Free cash flow	9	421	1,429	693
Cash interest payments	167	220	532	513
Adjusted free cash flow before interest	176	641	1,961	1,206

Calculation of EBITDA Margin

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Net income	1,051	1,208	2,930	3,594
Minority interest in subsidiaries' earnings	23	60	97	374
Income tax expense	445	446	1,264	1,393
Total other (income)/ expenses	245	247	843	(813)
Operating income	1,764	1,961	5,134	4,548
Accretion expense ⁽¹⁾	9	9	25	26
Depreciation, depletion and amortization	444	355	1,236	1,053
EBITDA	2,217	2,325	6,395	5,627
Total revenues	9,165	7,080	25,521	16,944
EBITDA margin	24.2%	32.8%	25.1%	33.2%

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

Calculation of Adjusted Net Income Margin before Minority Interest

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Net income	1,051	1,208	2,930	3,594
Minority interest in subsidiaries' earnings	23	60	97	374
Gain on disposal of share in CJSC Sevmorneftegas	-	-	-	(1,303)
Tax on gain on disposal of share in CJSC Sevmorneftegas	-	-	-	313
Adjusted net income before minority interest in subsidiaries' earnings	1,074	1,268	3,027	2,978
Sales revenues	9,165	7,080	25,521	16,944
Adjusted net income margin before minority interest in subsidiaries' earnings	11.7%	17.9%	11.9%	17.6%

Calculation of Capital Employed and Related Indicators

	December 31, 2004	December 31, 2005	June 30, 2005	September 30, 2005	June 30, 2006	September 30, 2006
Short-term loans and current portion of long-term debt	4,720	4,005	3,775	2,358	3,840	4,128
Long-term debt	9,022	8,198	8,026	9,087	8,558	7,998
Cash and cash equivalents	(1,033)	(1,173)	(589)	(501)	(1,166)	(991)
Net debt	12,709	11,030	11,212	10,944	11,232	11,135
Shareholders' equity	3,335	7,433	5,659	6,867	8,888	12,063
Minority interest	2,535	1,860	2,722	1,854	1,851	1,865
Equity	5,870	9,293	8,381	8,721	10,739	13,928
Capital employed	18,579	20,323	19,593	19,665	21,971	25,063
Average Equity			8,551	7,296	12,334	11,611
Average Capital Employed			19,629	19,122	23,517	22,693

Calculation of Return on Average Capital Employed (ROACE)

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Operating income	1,764	1,961	5,134	4,548
Income tax	(445)	(446)	(1,264)	(1,393)
Income tax on gain on disposal of share in CJSC Sevmorneftegaz	-	-	-	313
Return used for calculation of ROACE	1,319	1,515	3,870	3,468
Average capital employed	23,517	19,629	22,693	19,122
ROACE, annualized	22.4%	30.9%	22.7%	24.2%

Calculation of Return on Average Equity (ROAE)

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Adjusted net income before minority interest	1,074	1,268	3,027	2,978
Average Equity, including Minority Interest	12,334	8,551	11,611	7,296
ROAE, annualized	34.8%	59.3%	34.8%	54.4%